

# Accountancy

MARCH 1954

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## Professional Notes

### Football Pools to Publish Accounts?

THE POOL BETTING BILL, A PRIVATE MEMBER'S BILL INTRODUCED BY MR. F. W. MULLEY, member for the Park Division of Sheffield, passed its second reading in the House of Commons last month. It received a measure of support from the Government, who promised to assist in its further stages and, in particular, to make available the services of the Parliamentary draftsmen. The Government did not now commit itself to finding Parliamentary time for the later stages of the Bill, but agreed to consider whether time could be found on seeing how the Bill emerged from the Committee stage. It seems, therefore, that there is a good chance that the Bill, although perhaps materially amended, will become law.

In its present form the Bill provides for three main things. First, that a pre-determined proportion of the stakes in pools shall be returned in prizes. Second, that the results of pools shall be publicised, by newspaper announcements or by statements sent to competitors immediately after the announcement of the results, and annual profit and loss accounts shall be sent to local authorities. Third, that local authorities shall appoint for each pool a "qualified accountant" who will be required to examine the statements of the pool and to check that the provisions of the legislation are being complied with. A further provision that ready money pool betting may be carried on by post may, it appears, be dropped.

A "qualified accountant" is defined as in the Betting and Lotteries Act, 1934, where the expression means a member of the Institute of Chartered Accountants in England and Wales, the Institute of Chartered Accountants of Scotland, the Society of Incorporated Accountants or the Association of Certified and Corporate Accountants.

The *Pool Promoters' Association*, to which most of the pools belong, has issued a statement that it would cost £3 million a year to carry out the requirements of the Bill, that members' pools "have always been audited weekly by independent Chartered or Incorporated Accountants; their books and accounts are regularly examined by officials of the Customs and Excise; their accounts are sent annually to the Treasury." The Association sends ballot papers to clients, asking them to say whether or not they support the Bill.

It is hard to see how it could cost anything like £3 million to implement this Bill and harder still to see what reasoned case can be made out against the fullest possible publicity for the accounts of the pools, whose annual turnover has now reached the enormous figure of £70 million.

### Hospital Costing and Statistics

In centrally administered undertakings of the size of the hospital service it is inevitable that the annual collection and collation of costs and statistics is a slow and laborious process: the first publication in 1951 of the now annual *Hospital Costing Returns* and the *Hospital and Specialist Services Statistics* for England and Wales were criticised for their laggard appearance after the end of the periods they covered, no less than for their questionable value as technical documents. The most recent publications in the series, *Hospital Costing Returns for the year ended March 31, 1953*, and *Hospital and Specialist Services Statistics for the year ended December 31, 1952*, show an improvement in timing, but hardly in presentation.

The word "hospital" is a generic term covering a wide variety of groupings of medical and ancillary services and it is doubtful whether without a knowledge of the work and conditions of the hospitals in question, costs or statistics based on a "hospital"

as a unit can give a true picture. The costing returns in particular are overweighted with details of doubtful value: fundamentally they are based on a subjective analysis of expenditure per in-patient, but while recognising and adjusting for the varying effect of out-patients and vacant beds on the total in-patient cost, the analysis of this over some twenty subjective headings is reproduced somewhat inconsistently as costs per in-patient week.

Nevertheless, when this is said, these documents are not to be scorned, for used intelligently by live accountants and administrators they can provide guide-posts for the more detailed selective inquiries which would doubtless be necessary no matter in what greater degree the functions and departments of hospitals were to be analysed.

The limitations of the publications are well enough known and were tacitly recognised by the Ministry of Health when it recently set up working parties to consider improvements in the presentation of costs and statistics in the hospital service (see *ACCOUNTANCY* for December, 1953, page 376). But will any improvement give the man in the street other than the roughest impression of the facts about hospitals? Naturally, facts should be presented in the most informative way, yet in the hospital service, where emotion perhaps has greater sway than reason, it would be unwise for accountants to lend support to the impression that any costing system or statistical analysis would give information upon which outside observers could draw the correct conclusions, and would so provide a mainspring for administrative action. The circular presenting the 1952-53 returns states that "following the publication of previous returns . . . valuable results . . . have been achieved by investigating the differences in costs thrown up by the returns." It may be salutary to remember that no amount of improvement in the form of return can avoid the need for subsequent investigation of the differences revealed.

#### **Election of Mr. J. R. N. Stone as an Honorary Incorporated Accountant**

We have much pleasure in announcing that the Council of the Society of Incorporated Accountants has elected

as an Honorary Member of the Society Mr. J. R. N. Stone, C.B.E., M.A., a Fellow of King's College and Director of the Department of Applied Economics in the University of Cambridge.

At the age of 40, Mr. Stone holds a high reputation for his work in economics and statistics, particularly in the field of the national income and national accounts. He is a member of the Board of Governors and Council of Manage-

Interdepartmental Committee for Social and Economic Research.

Mr. Stone took a first class in the Law Tripos, Part I, and a first class in the Economics Tripos, Part II, at Cambridge, and was awarded the Ramadge Research Studentship at Gonville and Caius College. In 1940, as chief statistician in the offices of the War Cabinet, Mr. Stone worked on a survey of financial resources, which



*Mr. J. R. N. Stone, C.B.E., M.A.*

ment of the National Institute of Economic and Social Research, and of the Council of the Royal Economic Society; Vice-President (1953-54) of the Econometric Society; member of the Council and formerly Chairman of the International Association for Research in Income and Wealth; associate editor of *Econometrica* and a member of the editorial panel of *Metroeconomica*; foreign adviser to the National Income Committee of the Government of India; and a member of the British Government's Cost of Living Advisory Committee, the Retail Prices Technical Committee, and the

eventually became Part II of the national income White Paper. The survey showed that the best way to set out tables of national income, expenditure, output and capital formation was in the form of accounts, and Mr. Stone was impressed by the similarity between the accounts devised for this purpose and those used in commerce. Since the end of World War II Mr. Stone has applied this method on an international scale in work for the United Nations and the Organisation for European Economic Co-operation.

Mr. Stone was a member of the joint exploratory committee of accountants

and economists and chairman of the Joint Advisory Sub-Committee appointed by the Institute of Chartered Accountants in England and Wales and the National Institute of Economic and Social Research, whose report, *Some Accounting Terms and Concepts*, was published in 1951 (see ACCOUNTANCY, September, 1951, page 329).

He is the author or joint author of numerous books, memoranda and articles in economic journals. The current issue of *Accounting Research* contains an article on *Recent Developments in National Income and Social Accounting*, contributed by Mr. Stone jointly with Mr. Milton Gilbert, and he is the author of *The Measurement of Consumers' Expenditure and Behaviour in the United Kingdom (1920-1938)*, Volume 1, a large volume embodying the results of research he has conducted in recent years, which was published last month.

### The Universities and the Accounting Profession

The universities scheme must still be regarded as being in the experimental stage. On the whole it is operating on the lines of the recommendations made by Sir Arnold McNair's committee in 1944, but the numbers of students taking the approved courses are considerably below the McNair estimates.

These are the conclusions reached in the second report of the Joint Standing Committee of the universities and the accountancy profession.

Twelve universities or university colleges participate in the scheme and are represented on the committee. The Universities of Oxford and Cambridge do not participate but are represented. The participating accountancy bodies are the Institute of Chartered Accountants in England and Wales, the Society of Incorporated Accountants, and the Association of Certified and Corporate Accountants.

In the area of each participating university a local joint committee maintains close liaison between the university teachers and students and the district societies and students' societies of the professional bodies. A number of accountants hold professorships or act as full-time or part-time university lecturers; but the provision of suitable teachers is one of the main

problems, and there is need for graduates with adequate post-qualification accounting experience to devote themselves to this work.

The approximate number of students entering on courses under the scheme was 20 in the first year, 1945-46, and has gradually increased to 146 in 1952-53. Most of those who have so far graduated and been exempted from the professional Intermediate examinations have obtained the greater part of their necessary three years' practical experience after graduation, and the Joint Standing Committee has stressed the importance of this. In no case should the final period of experience gained after graduation and before the professional Final examination be less than one year.

As noted on page 3 of our January issue, Professor J. M. Whittaker, Vice-Chancellor of the University of Sheffield, was recently elected chairman of the committee in succession to Lord Percy of Newcastle, whose invaluable work and guidance over the past eight years is acknowledged in the report.

### New Members of the Society's Council

As reported on page 118 of this issue, the Council of the Society of Incorporated Accountants has appointed Mr. W. F. Edwards, F.S.A.A., and Mr. J. A. Jackson, F.S.A.A., to be members of the Council. Photographs of the two new Council members, whom we have pleasure in congratulating upon their appointment, appear on page 116.

Mr. W. F. Edwards, F.S.A.A., is a director, the Treasurer and the Secretary of *General Motors, Ltd.*, London, S.W.1. He is 56 years of age, and began his career in accountancy in January, 1914, with Messrs. E. Layton-Bennett, Sons & Co.—now Layton-Bennett, Billingham & Co., Chartered Accountants. He remained with them, except for service in H.M. Forces throughout World War I, until his election to membership of the Society of Incorporated Accountants in January, 1925. In 1928 he joined the General Motors group, holding the offices of director, Treasurer and Secretary first of *Delco-Remy & Hyatt, Ltd.*, automotive engineers, and later of *Frigidaire, Ltd.* The businesses of both these companies

and of a third subsidiary, *A. C. Spark Plug Co., Ltd.*, were absorbed as divisions within *General Motors, Ltd.*, in 1947. Mr. Edwards then became a director and the Treasurer of *General Motors, Ltd.*, and in 1953 was appointed the Secretary in addition. The company has now a total issued share capital of £2,500,000 and over 5,000 employees. He is also a trustee for the pension fund for the employees of *Vauxhall Motors, Ltd.* and *General Motors, Ltd.*: the invested funds exceed £4 million.

Mr. Edwards was admitted to Fellowship of the Society two years ago. He has rendered considerable assistance to the Incorporated Accountants' Research Committee, of which he was a member from 1942 to 1952; and District Societies are indebted to him for a number of helpful and informative addresses. He has attended a number of the short courses held by the Society before and since the war at Oxford and Cambridge, and gave a paper entitled *Budgetary and Financial Control* at the course on management accounting at Balliol College, Oxford, in September, 1952.

His son, Mr. Norman Edwards, a graduate in economics at Cambridge University, has just passed the Society's Intermediate Examination.

Mr. J. A. Jackson, who is 48 years of age and was educated at Wallasey Grammar School, qualified as a Chartered Accountant in 1927, after serving articles with Mr. George Leather, F.C.A., of Harmood Banner and Son, Liverpool. He was Allan Cookson prizeman in Liverpool in 1926. In 1939, he became a member of the Society of Incorporated Accountants and joined the firm of Lithgow, Nelson and Co., Incorporated Accountants, of Liverpool, London and Southport. He was elected to Fellowship of both the Institute and the Society in 1944. From 1943 to 1953, Mr. Jackson was a member of the Committee of the Incorporated Accountants' London and District Society and served as the chairman of the District Society in 1951-52. He is a member of the Incorporated Accountants' Research Committee. He was an examiner for the examinations of the Society of Incorporated Accountants from 1947 until last year, and in 1945 and 1946 acted as a lecturer in the Society's



university courses for returning servicemen. He is a member of the Taxation Committee of the London Chamber of Commerce. Mr. Jackson is at present Master of the Incorporated Accountants' Lodge.

### **Society's Course on Management Accounting at Balliol College, Oxford**

The Council of the Society has made arrangements, with the kind permission of the Masters and Fellows, to hold a course on Management Accounting at Balliol College, Oxford, from Friday evening, September 17 to Tuesday morning, September 21, 1954. The course will open with an address to be given by Sir Geoffrey Heyworth, Chairman of *Unilever Ltd.*, and the following papers will be presented during the course:

*Mechanisation, Present and Future*, by Mr. D. W. Hooper, A.C.A.

*Statistics and the Accountant*, by Mr. W. F. Harris, A.S.A.A.

*Incentives for the Indirect and Clerical Worker*, by Mr. G. J. Mills.

*Financial Management*, by Mr. G. S. Nelson, A.S.A.A.

*Costing, Estimating and Price Fixing*, by Mr. D. Solomons, B.COM., A.C.A.

Copies of the papers will be printed before the course opens and will be sent to those attending.

The programme should appeal to members in all branches of the profession and not only to those engaged in industry. The closing date for the receipt of applications—to be sent to the Secretary of the Society at Incorporated Accountants' Hall—is April 30. The inclusive charge for the course is £7 7s.

### **Research Lecture by Professor Bray**

Professor F. Sewell Bray, the holder of the Stamp-Martin Chair of Accounting, will give his third public research lecture at Incorporated Accountants' Hall, on Tuesday, March 30, at 6 p.m. The subject of the lecture will be *Accounting Dynamics—I*. Admission is free and no tickets are required.

### **Costing in the Furniture Industry**

Furniture is made almost entirely for domestic consumption; and foreign competition is negligible; in 1948 less than one per cent. was exported, while imports were somewhat less than exports. Less than 10 per cent. of furniture sales are effected through wholesalers. The industry is composed mainly of small manufacturers: the census reports show about 4,000 firms with 125,000 operatives and an annual turnover of about £100 million. Except in a few of the larger concerns, modern factory production methods and detailed cost analysis have been introduced only in recent years. These are some of the salient points of a report just issued by the *British Productivity Council* with the title *A Review of Productivity in the Furniture Industry* (available from the Council at 21 Tothill Street, London, S.W.1, price 2s. net).

The *British Furniture Manufacturers' Federated Associations* recently applied for the use of counterpart funds from American aid for developing an advisory service in costing. As this was not granted a service is to be financed by the industry. The *Furniture Development Council* has appointed a costing adviser to visit firms and advise on methods suitable for them.

Many of the larger and medium sized firms have had budgetary control and costing systems in use for many years, and these have become more widespread during and since the war. The Development Council has obtained details of methods used in the industry in Sweden and in other countries. As an experiment, twelve companies have recently participated in a scheme for exchanging details of their production costs.

The need for efficient costing is recognised by the trade union, which points out in its journal that wages may be threatened by panic action to remedy losses disclosed only at the time of the annual audit.

### **Centenary of the Scottish Institute**

The oldest professional body of accountants in the world, the *Institute of Chartered Accountants of Scotland*, will celebrate in June the centenary of its Royal Charter of incorporation. The

charter was granted in October, 1854, to the Society of Accountants in Edinburgh. By a supplementary charter in 1951 the Institute of Accountants and Actuaries in Glasgow and the Society of Accountants in Aberdeen were amalgamated with the Edinburgh Society, and the present name was adopted. The Institute has now over 5,500 members, of whom half are in Scotland, nearly 1,700 elsewhere in the United Kingdom, and nearly 1,000 overseas.

The centenary celebrations will be held in Edinburgh from Wednesday, June 16 to Friday, June 18. They will open with a service in St. Giles' Cathedral conducted by The Very Rev. Charles L. Warr, K.C.V.O., D.D., LL.D., Dean of the Thistle and Chapel Royal, with the Right Rev. K. C. H. Warner, D.S.O., D.D., Bishop of Edinburgh. Two plenary sessions will be held: at the first representatives of other accountancy bodies will deliver addresses and at the second there will be papers entitled *The History and Development of the Accountancy Profession in Scotland* and *The Place of the Accountant in the Modern World*. There will be a centenary banquet, a Civic Reception by the Lord Provost and Corporation, a centenary ball, and other social functions.

An exhibition of early book-keeping methods will be held at the Institute's offices. The Institute will publish a volume on the history of Scottish accountants from the earliest times to the present.

### **Financial Control and Audit of Universities**

The Public Accounts Committee has renewed an earlier recommendation that the Comptroller and Auditor-General should have the right to examine the books and accounts of the universities relating to their expenditure for non-recurrent purposes. In reply to the committee, the Treasury reiterates the argument that academic independence requires that the universities should remain free of the audit of the Comptroller and Auditor-General, and the extended control by the Treasury which would assuredly follow (see *ACCOUNTANCY*, October, 1952, page 326).

The Treasury is, however, trying to



find some other way of satisfying the Public Accounts Committee. There should be no difficulty, it says, in making arrangements which will ensure that the grants are duly appropriated for the expenditure towards which they are made. These arrangements will presumably result in some extension of the professional audit of the universities for, continues the Treasury, "the precise part to be played by the universities' auditors and professional advisers will require consideration in consultation with them."

The Public Accounts Committee has another objective—to ensure economy in the expenditure of these non-recurrent grants. The Treasury says that it recognises that some provision is necessary beyond certification by the auditors of the universities. It is considering and will discuss with the universities what this provision might be—for example, the University Grants Committee might appoint one or more suitable persons to report to it on "the question whether any, and if so what, changes are necessary to secure that universities' methods of contracting, and of recording and controlling expenditure, are reasonably designed, and properly applied, to ensure effective safeguards against waste, extravagance or other abuse." Any such report would be made available to the Public Accounts Committee, with a note of the action to be taken upon it.

The Treasury statement is given in the Special Report from the Committee of Public Accounts, Session 1953-54 (Treasury Minute and Abstract of Appropriation Accounts), obtainable from Her Majesty's Stationery Office at 1s. net.

### Inland Revenue Statistics

A plethora of statistics is again presented by the Board of Inland Revenue in its annual report, the 96th in the series, for the year ended March 31, 1953 (Her Majesty's Stationery Office, price 5s. net). This is the indispensable source-book for figures, not only on the direct taxes themselves, but also on incomes (variously grouped and re-grouped), estates, the rates of stamp duty and valuations for the various taxes.

A feature is the continuation of the statistics of the financial operations of

industry given in the two preceding reports. In 28 industrial groups the important items in the assessments are shown as percentages of turnover. As an example of the information here available, we reproduce the table for one of the 28 groups, that for clothing:

Year of Assessment	1938-39	1949-50	1950-51	1951-52
Turnover .. ..	100.0	100.0	100.0	100.0
Costs				
(a) Materials ..	60.5	64.8	66.0	68.1
(b) Personnel ..	28.8	25.2	24.6	23.6
(c) Other .. ..	6.8	5.3	3.9	3.4
Increase in stocks	2.3	4.2	2.4	3.3
Trading profit ..	6.2	9.0	7.8	8.2
Depreciation allowances	.6	.8	.8	.9
Net trading profit ..	5.6	8.2	7.0	7.4
Losses .. ..	.1	.2	.2	.1
Other income ..	1.6	.8	.5	.3
Total income ..	7.1	8.8	7.3	7.6
Distributions (gross)—				
(a) Dividends ..	4.1	2.0	1.5	1.9
(b) Loan interest	.3	.1	.1	.1
(c) Royalties ..	.4	.2	.1	.1
Profits tax .. ..	.1	1.2	1.1	1.1
Income tax .. ..	.7	2.4	2.1	2.1
Balance .. ..	1.5	2.9	2.5	2.3

The individual company may thus compare its figures on a broad basis, with those of the industrial group to which it belongs. Comparisons among industrial groups are also informative. We are constrained, however, to repeat a suggestion we have made before, that the value of the statistics, in comparisons of this kind, would be much enhanced if the sub-division were a finer one, into smaller segments of industry.

One *curiosum* of the statistics on the valuation of properties for death duties: in 1947-48 the Valuation Office increased the principal value as brought in by the accounting parties, by approximately 11 per cent. in England and Wales and by about the same percentage in Scotland. The percentage has since tended slightly downwards in England and Wales, to less than 9 per cent., but there has been a steady and progressive upward movement to around 16 per cent. in Scotland. Why the disparity?

### Twenty-fifth Anniversary of Incorporated Accountants' Hall

Twenty-five years ago last month, Incorporated Accountants' Hall was formally opened by H.R.H. the Duke of York, later His Majesty King George

VI. A detachment of the London Scottish with the King's Colours and Pipers mounted the Guard of Honour and the Duke was received with a Royal salute before being welcomed by the then President of the Society, Mr. (later Sir) Thomas Keens (whose lamented death occurred three months ago). In his address declaring the Hall open, the Duke said that the Society was "indeed fortunate in having become the possessors of this unique specimen of architecture, representing as it does the highest skill of British art and craftsmanship." This present generation of Incorporated Accountants, which in 1951 witnessed the rebuilding of the Hall after the damage sustained from a flying bomb in 1944, applauds the Council of 25 years ago for its perspicacity in making this magnificent acquisition.

We have pleasure in announcing that an extension of the Hall, for which plans have been ready for some time, has been licensed. It is hoped that work will begin in a few months' time and will be completed early next year. The extension, which is to be of some 2,000 square feet on the north side of the Hall, will be entirely in keeping with the architectural and other characteristics of the present building.

### "Leo"—The Electronic Computer

Nearly two years ago we reported that an electronic computer, dubbed "Leo," was being installed by J. Lyons and Co. at their London head office: experiments were to be made to decide how useful the machine would be in clerical and accounting work (ACCOUNTANCY, April 1952, page 126). It now appears that what the company calls "the first all-purpose commercial electronic high-speed calculator ever built anywhere in the world" is proving its value in large-scale repetitive clerical and calculating work in the "Lyons Electronic Office," from which Leo derives its apt name.

Other electronic machines, designed for mathematical and scientific work, are fed with relatively few data, and performing on them a vast number of intricate calculations, produce the results in no more than a line or two of figures. In clerical work, not only the calculations, but also the data to be fed

to the machine and the results to be recorded, are very numerous. The new computer had to be different from the existing types by absorbing data at great speed, and means had to be found for recording results, in both printed and punched card form, quickly enough to avoid the computer being cluttered up with data and calculations. The production of the payroll is an obvious job for this computer—it completes the payroll for 1,700 men, individually and collectively, in less than an hour (Lyons employ 33,000 people in all). But other types of commercial work involving repetitive calculation are stated to be within Leo's scope—ledger-keeping, stores control, invoicing and cost accounting are instanced.

### Public Accountability and the Nationalised Industries

In August of last year a Select Committee of the House of Commons reported in favour of the setting up of a Select Committee of the House for "examining the reports and accounts of, and for obtaining further information as to the general policy and practice of, the nationalised industries." In a debate in the House last month Mr. Harry Crookshank, The Lord Privy Seal, said the Government accepted the principle of setting up such a Select Committee, leaving open whether it should be a committee of the Commons only, as proposed by last year's Select Committee, or a joint committee of both Houses. The Government thought there should be no question of the Select Committee's inquiring into detailed administration; future plans and negotiating machinery for wages and working conditions should be outside its purview. It would be a mistake, said Mr. Crookshank, to begin by creating an office comparable to that of the Comptroller and Auditor-General for serving the committee, as proposed in last year's report: it would be better to begin with a committee clerk and "somebody in the nature of a Treasury liaison officer."

There were speeches in favour of and against the proposal on both sides of the House, but no vote was taken. Whether or not the formation of a Select Committee on the lines proposed

is in itself desirable, it is certainly clear, to quote an opposition member, Mr. Austen Albu, that it would not "control the efficiency" of nationalised industries. Those who wish for "operational audits" of the Boards will not find that the Select Committee proposed by the Government provides them.

### Capital Gains on Take-overs

The most interesting thing to come out of the Commons' debate last month on take-over bids was this passage by the Chancellor of the Exchequer:

... the Inland Revenue are watching the position ... while I cannot say any more today, because it is out of order at this season, before I have to undertake certain activities a little later in the year, I can assure him [Mr. Gaitskell] that this whole question is under the closest possible review, not only in regard to the personal activities of certain people, but also in regard to any policy which might have to be adopted to deal with them.

These sentences came in the context of a discussion about untaxed capital gains (not all gains on take-overs are untaxed, of course). Do they portend a new tax in due season, when activities are concerned with the Budget?

## Shorter Notes

### War Damage Payments

The War Damage Commission paid out £38 million during 1953, bringing the total up to £1,115 million in 4,600,000 separate payments.

### New Business Names

There were 28,543 new registrations last year under the Registration of Business Names Act, 1916, bringing the total number on the register to 653,531. Twelve prosecutions were instituted during the year for non-compliance with the provisions of the Act, and a conviction was obtained in each case.

### E.P.T. Refunds

Net repayments of E.P.T. refunds totalled £269 million up to the end of 1953.

## 50,000 C.P.As

Mr. Arthur B. Foye, C.P.A., President of the American Institute of Accountants, has announced that the number of Certified Public Accountants in the United States has passed the 50,000 mark. In 1940 there were only 20,000. He forecast that the number would be 100,000 within the next 10 or 15 years. Demand for Certified Public Accountants is outdistancing supply and the American Institute is spending \$80,000 to recruit new entrants.

### International Management Congress

At the 10th International Management Congress of the International Committee of Scientific Management, held in São Paulo, Brazil, last month, Mr. S. A. Spofforth, F.C.A., F.S.A.A., F.C.I.S., President of the Institute of Taxation, acted as spokesman to the French paper entitled *Policy-making as affected by Factors outside the Control of Management, particularly Credit and Taxation*.

### Managing the Small Firm

A second conference for small firms is being held from March 5 to 7 at Ashorne Hill, near Leamington Spa. The sponsors are the British Institute of Management, the Midland Region of the National Union of Manufacturers, the Birmingham Branch of the Institute of Industrial Administration and the Federation of British Industries. The theme for the conference is "Managing the Small Firm" and the following subjects will be covered with particular reference to the small firm: *Export Marketing, Work Study, Standardised Costing, and Problems of Growth*.

### Domicile

The Private International Law Committee, which was set up in September, 1952, to consider questions referred to it by the Lord Chancellor, finds in its first report that the law of domicile is seriously defective. The committee recommends that legislation should be passed to bring the law into conformity with a code of the law of domicile which it has drafted. Liability to estate duty would be materially affected if the recommendation were adopted. We hope to discuss the committee's report in our next issue.

### Double Taxation Agreement with Western Germany

The Financial Secretary to the Treasury announced on February 18 that negotiations had been almost completed for a double taxation agreement with Western Germany but one or two small points remained to be settled. He hoped that signature would not be long delayed.



# ACCOUNTANCY

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## Taxation and Retirement Provisions

THE REPORT OF THE SECOND MILLARD Tucker Committee—which is the subject of a set of articles on later pages of this issue of ACCOUNTANCY—is, apart entirely from its recommendations, an admirable study of one of the most complex parts of the taxation field, the tax treatment of pension and superannuation schemes. As a text-book alone, the report must be “required reading” for all accountants who are concerned with this rather specialist side of taxation. The recommendations, and the arguments supporting them, demand a very much wider readership. For they concern, in effect, all those of the working population who are already members of pension schemes and also the far larger portion of it who are at present ineligible for membership of schemes. In other words, a very large number of the people at work in the country have a direct interest in the proposals of the report and its outcome. The accountancy profession, comprising both accountants in industry and Government service and accountants in professional practice, is concerned with both the two main parts of the report—that on the future of pension schemes and that on the tax treatment of retirement provisions made by the self-employed and others who cannot come within these schemes.

These two parts of the report are underlaid by a main principle from which the committee has worked—that it is reasonable for remuneration from work to be spread over a longer period than a working life. Once this is

admitted, the major question poses itself: should the “build-up” of amounts set aside out of present income be free of tax, and the future benefits be taxable; or, alternatively, should the build-up be made out of taxed income, and the benefits be tax exempt? The committee decided in favour of allowing the build-up to be free of tax, and taxing the benefits. This was clearly the right decision: it is in line with the traditional practice in this country—in the taxation of pension funds in the past and the encouragement, by tax reliefs, of life assurance—and it produces a more direct incentive for providing against future retirement, which is a laudable object.

The safeguards necessary to ensure both that the build-up allowed against tax is not disproportionately large, and that the benefits are not obtained in a form or at a time which would free them of some of their tax liability, are meticulously and laboriously worked out in the report. The method adopted by the committee of limiting the permissible build up for the self-employed and similar groups is to relate it to earned income. But complicated adjustments are introduced to allow for such factors as the different kinds of annuity obtained, the elimination of unearned income from total income, and the number of years during which the person had been in the class of the self-employed or a similar group (and therefore unable to provide in the past for his retirement except out of taxed income). There is much room in all these adjusting pro-

visions for later modifications of detail. One desirable change would be made if there were some recognition of the special place of the “under average life”—a point to which we devote attention in our article on page 101. The main safeguard on the side of the drawing of benefit is that lump-sum payments, which would be tax free, would be limited, both in pension schemes and for the self-employed and others similarly placed, to a maximum of £10,000. This appears to be a reasonable enough limit—but there is perhaps some danger that if the Chancellor acts on the report he may feel constrained to be less generous.

The dominant question, however, is whether the Chancellor, who is said to have taken an advance copy of the report as reading matter on his recent air trip to Australia, will decide to accept the recommendations in the broad. If he did so, the annual cost to the Exchequer is put at some £77 million, of which the main parts are £5 million for the changes in existing schemes, £35 million for the provisions for the self-employed and non-service directors and £35 million for employees not within pension schemes. It would be difficult for Mr. Butler to find £77 million a year in the present and prospective state of the national finances. But it is important to remember that the pensions of the future will be taxed, even if at lower rates than the incomes of the present, so that there is a valuable set-off to be taken into account. Even more important, to produce tax reliefs of some £77 million, savings in pension schemes, trust funds and life assurance offices would have to expand by almost twice that figure. A growth of private savings of such dimensions is of the greatest significance at this time, when the pronounced decline in those savings is one of our outstanding economic phenomena and the cause of much of our economic difficulty. It is true that pension funds and life offices canalise only a part of their incoming funds into risk-bearing investment, which suffers most from the dearth of savings, but even that part is substantial, and the remainder of their funds release some capital from other sources to flow into risk-bearing outlets instead of merely seeking security.



# The Statement of Source and Disposition of Funds

By E. B. PALMER, B.COM., A.C.A.\*

THE STATEMENT OF SOURCE AND DISPOSITION OF FUNDS (sometimes more familiarly and descriptively known as the "where-got where-gone statement") has for many years been employed by the profession in the United States. In this country it has received less publicity and has only recently been coming into use.

The purpose of this form of statement is to show simply from where funds or resources have become available to a business over a period, and how they have been applied. The definition of the term "funds" has not yet been agreed by theorists, but it is of little practical importance: any

\* The author wishes to express his thanks to Mr. E. J. C. Bell for his comments and criticisms on the forms as originally drafted for use in this article.

individual statement should be planned to meet the purpose for which it is intended by its compiler.

The statement is prepared by listing the increases and decreases in the items contained in the balance sheets (or other lists of balances) at the beginning and end of the period under review and, subject to certain adjustments, arranging these variations in a suitable order for presentation in statement form. The method of working can best be shown by means of an illustration. In the following example the balance sheet of XYZ Limited at December 31, 1953 (with comparative figures), and the profit and loss account for the year ended on that date, provide the information from which the statement for 1953 is prepared. As the statement is essentially a *simple* management tool it

## XYZ LIMITED BALANCE SHEET AS AT DECEMBER 31, 1953

December 31, 1952 £		£	£	December 31, 1952 £		Cost or Valuation	Deprecia- tion to date	Net Book Value
	SHARE CAPITAL AND RESERVES				FIXED ASSETS	£	£	£
	SHARE CAPITAL: AUTHORISED, ISSUED AND FULLY PAID			155,000	Freehold property .. ..	200,000	50,000	150,000
600,000	600,000 shares of £1 each ..		600,000		Plant: valuation at January 1, 1953 and additions at cost .. ..	750,000	400,000	350,000
	CAPITAL RESERVE			150,000		<b>£950,000</b>	<b>£450,000</b>	
—	Balance arising on revaluation of plant .. ..	150,000			TOTAL FIXED ASSETS .. ..			500,000
—	Profit on sale of trade investments	5,000		305,000	TRADE INVESTMENTS, at cost ..			75,000
			155,000	95,000	Estimated market value (£90,000)	£70,000		
	REVENUE RESERVES				CURRENT ASSETS			
40,000	General reserve .. ..	50,000		250,000	Stock and work-in-progress .. ..		349,500	
	Profit and loss account, being credit balance per attached account .. ..	30,250		300,000	Debtors .. ..		390,000	
			80,250	90,000	Tax reserve certificates .. ..		40,000	
29,000				55,500	Cash .. ..		80,000	
	TOTAL CAPITAL AND RESERVES ..		835,250	695,500	TOTAL CURRENT ASSETS .. ..			859,500
	RESERVES FOR FUTURE TAXATION							
80,000	Income tax, 1954-55 .. ..	100,000						
27,000	Tax equalisation reserve .. ..	20,000						
			120,000					
107,000								
	5 PER CENT. MORTGAGE DEBENTURES, 1999							
—	Secured on freehold property and by floating charge .. ..		100,000					
	CURRENT LIABILITIES							
191,750	Creditors .. ..	201,250						
100,000	Provision for current taxation ..	140,000						
12,000	Provision for deferred repairs ..	5,000						
	Proposed final dividend of 10 per cent. (less tax) .. ..	33,000						
15,750								
319,500	TOTAL CURRENT LIABILITIES ..		379,250					
<b>£1,095,500</b>			<b>£1,434,500</b>	<b>£1,095,500</b>				<b>£1,434,500</b>

is rarely necessary to have a comprehensive worksheet: a note of the few adjustments made will usually suffice.

# XYZ LIMITED

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 1953

Year to December 31, 1952		£	£	£
190,000	TRADING PROFIT after charging .. ..	£	£	218,000
	£45,000 Depreciation .. ..	105,000		
	£19,000 Directors' emoluments .. ..	20,000		
3,500	INCOME FROM TRADE INVESTMENTS (Gross)		6,400	
193,500	NET PROFIT, subject to taxation .. ..		224,400	
	<b>Deduct:</b>			
	<b>TAXATION</b>			
85,000	Income tax .. ..	110,000		
17,000	Profits tax .. ..	19,000		
29,000	Excess Profits Levy .. ..	40,900		
9,000	Transfer to tax equalisation reserve .. ..	—		
140,000		169,900		
	<b>Less:</b>			
	Transfer from tax equalisation reserve .. ..	7,000		
140,000	TOTAL PROVISION FOR TAXATION .. ..		162,900	
53,500	NET PROFIT .. ..		61,500	
	<b>Deduct:</b>			
	Adjustment relating to prior year's dividend .. ..	750		
15,750	Interim dividend of 5 per cent. (less tax) .. ..	16,500		
	Proposed final dividend of 10 per cent. (less tax) .. ..	33,000		
5,000	Proposed transfer to general reserve .. ..	10,000		
36,500		60,250		
17,000	<b>Add:</b>		1,250	
12,000	Balance brought forward, January, 1, 1953 .. ..		29,000	
150,000	Balance carried forward, December 31, 1953 .. ..		£30,250	

# XYZ LIMITED

## STATEMENT OF SOURCE AND DISPOSITION OF FUNDS FOR THE YEAR ENDED DECEMBER 31, 1953

I. SOURCE:	£	£
Net profit before taxation .. ..	224,400	
Provision for depreciation .. ..	105,000	
Proceeds of sale of trade investments .. ..	25,000	
Issue of 5 per cent. mortgage debentures .. ..	100,000	
	454,400	
II. DISPOSITION:		
Dividends paid (net) .. ..	33,000	
Taxation paid .. ..	109,900	
Deferred repairs completed .. ..	7,000	
Purchases of plant .. ..	150,000	
	299,900	
III. NET INCREASE IN WORKING CAPITAL (I—II):		
Increase in—Stock and work-in-progress .. ..	99,500	
Debtors .. ..	90,000	
Cash .. ..	24,500	
	214,000	
<b>Less:</b>		
Decrease in Tax Reserve Certificates .. ..	50,000	
Increase in creditors .. ..	9,500	
	59,500	
	£154,500	

## Working Notes

	£
1. Proceeds of sale of trade investments:	
Cost at December 31, 1952 .. ..	95,000
<b>Less:</b>	
Cost at December 31, 1953 .. ..	75,000
	20,000
<b>Add:</b>	
Profit on sale (Capital reserve) .. ..	5,000
	£25,000
2. Dividends paid:	
Final dividend for 1952 (including adjustment) .. ..	16,500
Interim dividend for 1953 .. ..	16,500
	£33,000
3. Taxation paid:	
Balances at December 31, 1952	
Future tax .. ..	80,000
Current tax .. ..	100,000
Charge for 1953 .. ..	169,900
	349,900
<b>Less:</b>	
Balances at December 31, 1953	
Future tax .. ..	100,000
Current tax .. ..	140,000
	240,000
	£109,900
4. Purchases of plant:	
Net book value at December 31, 1953 .. ..	350,000
<b>Add back:</b>	
Provision for depreciation in 1953 .. ..	100,000
	450,000
<b>Less:</b>	
Increase on revaluation (Capital reserve) .. ..	150,000
Net book value at December 31, 1952 .. ..	150,000
	300,000
	£150,000

With the exception of the four items dealt with in the working notes, all the figures appearing in the statement are either differences between the December 31, 1952 and 1953 balances, or items in the profit and loss account. The four exceptions thrown up by the example are typical—but not exhaustive—of the adjustments which will be called for in any particular case. The general rule is that any transaction which does not result in a change in the "funds" position of the company must be eliminated: thus along with the elimination of the capital reserve created by the revaluation of plant (as illustrated above) would go bonus issues of shares, amounts written off goodwill, changes in the basis of stock valuations, and similar entries not affecting the real financial position of the company.

The form of statement used here is that which is generally most suitable for inclusion in period accounts and reports presented to the board or executive. It is also a suitable means of presenting to shareholders the essential information contained in the accounts and reports—a practice adopted by some American companies. If the statement is so included in the published accounts, it can be adapted to cover the whole of a company's existence, showing how expansion has been financed out of issued capital on the

one hand and profits on the other, and comparing progress in, say, five-year or ten-year periods.

It is important that the statement should give the information actually required by the directors or executive, and the layout is therefore likely to vary. In accordance with what appears to be usual practice in this country, the statement set out above shows only taxation paid, and not the increased current liability (£40,000) or the increased amount set aside for future tax (£20,000 less £7,000). But these amounts are material, and the current liability in particular might usefully be introduced into the statement by increasing the disposition in respect of taxation, and reducing the net increase in working capital. In this way taxation is subjected to the same treatment as other outgoings: it becomes a disposition of funds when a current liability has been incurred.

By a minor variation of the form here used the net increase in working capital may be shown as a disposition of funds, so that the total source of funds equals the total disposition. Another modification is to state each item of working capital separately; for example, the decrease in tax reserve certificates could appear as a source of funds. But it is not recommended that this practice be followed in normal circumstances.

The order of items may also be rearranged to indicate whether purchases of fixed assets are being financed by the proceeds of sale of obsolete fixed assets *plus* the current provision for depreciation. The amount of information given can be varied to suit requirements.

#### FIXED ASSETS:

	Proceeds of Sales	Current Deprecia- tion	Pur- chases
	£	£	£
Freehold property .. .. .	—	5,000	—
Machinery and equipment .. ..	5,000	80,000	140,000
Motor vehicles .. .. .	1,000	18,000	11,000
Office furniture, etc. .. .. .	—	2,000	5,000
	<u>£6,000</u>	<u>105,000</u>	<u>156,000</u>
		6,000	
			<u>111,000</u>

NET NEW INVESTMENT IN FIXED ASSETS. . . . . £45,000

A similar grouping may be made of revenue items:

CURRENT OPERATIONS:	£	£
Net profit before taxation .. .. .		224,400
Less:		
Taxation paid .. .. .	109,900	
Dividends paid (net) .. .. .	33,000	
		<u>142,900</u>
NET FUNDS FROM CURRENT OPERATIONS .. .. .		<u>£81,500</u>

In this form the statement might then be combined with other period statements: for example, with a summary of the trading account, of the profit and loss account and of the profits on types of products—summaries which would lead to the net profit figure.

The grouping of revenue items is particularly relevant when a loss has been incurred. The first loss after a number of profitable years is usually financed largely by a refund of tax (or a reduction in a tax liability) and by a reduction in working capital following a fall in turnover.

#### CURRENT OPERATIONS:

Net loss before taxation adjustments .. .. .	£	£
Add:		150,000
Profits tax and excess profits levy paid .. .. .		36,000
		<u>186,000</u>
Less:		
Income tax recoverable .. .. .		65,000
NET LOSS OF FUNDS ON CURRENT OPERATIONS ..		<u>121,000</u>
Deduct:		
DECREASE IN WORKING CAPITAL:		
Decrease in—Stock and work-in-progress .. ..	10,000	
Debtors .. .. .	75,000	
Tax Reserve Certificates .. .. .	90,000	
Cash .. .. .	10,000	
		<u>185,000</u>
Less:		
Decrease in creditors .. .. .	70,000	
NET DECREASE IN WORKING CAPITAL .. .. .		<u>115,000</u>
NET DISPOSITION OF OTHER FUNDS TO MEET LOSS ON CURRENT OPERATIONS .. .. .		<u>£6,000</u>

The actual form of this statement will, of course, depend on the practice previously adopted regarding the treatment of taxation liabilities: if these have been included in earlier years' statements, then the reduction in the tax provision must be included thus:

Net loss, etc. .. .. .	£	£
Less:		186,000
Income tax recovered and liabilities cancelled ..		<u>110,000</u>
		76,000
Deduct:		
DECREASE IN WORKING CAPITAL, as before .. ..	115,000	
Less:		
Decrease in Provision for Taxation .. .. .	45,000	
		<u>70,000</u>
		<u>£6,000</u>

This form is particularly useful in showing why a loss for one year may not prove a strain on company resources. Equally it shows that a similar loss in the next year cannot be financed from the same sources.

The statement is occasionally required for special purposes. Thus, it may be designed to show how new capital has been employed:

DISPOSITIONS OF NEW CAPITAL:	Total Dispositions £	Financed from Current Operations £	Capital £
Net increase in working capital .. .. .	154,500	81,500	80,000
Deferred repairs completed .. .. .	7,000		
Purchases of plant .. .. .	150,000	105,000	45,000
	<u>311,500</u>		<u>125,000</u>
Deduct:			
Proceeds of sale of trade investments .. .. .	25,000		25,000
	<u>£286,500</u>	<u>£186,500</u>	
NEW CAPITAL (5 per cent. debentures)			<u>£100,000</u>

Generally speaking this is not a particularly useful form. It is invariably difficult to show how a particular fund has been applied, but there may be circumstances in which it is of relevance; for example, in showing whether new capital has been entirely absorbed in purchases of plant as planned.

Finally, the statement can be prepared to show the effect



of a period's operations on the cash position, and in this form it can be used as a means of budgeting future cash requirements:

# XYZ LIMITED

## PROJECTED SOURCE AND DISPOSITION OF FUNDS FOR THE YEAR ENDING DECEMBER 31, 1954

I. SOURCE:	£
Budgeted net profit before taxation .. .. .	250,000
Provision for depreciation—	
Freehold property .. .. .	5,000
Plant (based on capital budget) .. .. .	112,500
Increase in creditors (based on budgeted increase in materials consumption, etc.) .. .. .	25,000
	<u>392,500</u>
II. DISPOSITION:	
Planned dividends (net):	
Final 1953, 10 per cent. (less tax) .. .. .	33,000
Interim 1954, 5 per cent. (less tax) .. .. .	16,500
Estimated taxation payable:	
Income tax, 1953-54 .. .. .	80,100
Profits tax, 1953 .. .. .	19,000
Excess Profits Levy, 1953 .. .. .	40,900
Deferred repairs .. .. .	5,000
Purchases of plant .. .. .	125,000
Increase in stock and work-in-progress (based on budgeted increase in sales and materials consumption) .. .. .	50,000
Increase in debtors (based on budgeted increase in sales) .. .. .	40,000
	<u>409,500</u>
III. PROJECTED DECREASE IN CASH RESOURCES (II—I.) .. .. .	<u>£17,000</u>

CASH RESOURCES at January 1, 1954:	£	£
Tax Reserve Certificates .. .. .	40,000	
Cash .. .. .	80,000	
		<u>120,000</u>
Deduct:		
PROJECTED DECREASE in 1954 .. .. .		<u>17,000</u>
ESTIMATED CASH RESOURCES at December 31, 1954:		
Tax Reserve Certificates (Income tax, 1954-55) .. .. .	110,000	
Less:		
Estimated overdraft .. .. .	7,000	
		<u>£103,000</u>

To summarise. The statement of source and disposition of funds can be put to many uses—as a period statement for management, as a synopsis of activities for shareholders, as a subsidiary guide for the investigator, and as a method of budgeting cash requirements. In each use and circumstance it may take a different form. It is altogether a most useful and adaptable tool of accountancy, and the maximum use should be made of it.

## Brave New World\*

By A. H. MARSHALL, PH.D., F.S.A.A., F.I.M.T.A.

*City Treasurer of Coventry, President of the Institute of Municipal Treasurers and Accountants and member of the Council of the Society of Incorporated Accountants*

IN 1950 MR. T. A. BIRD AND I WROTE: "... office machinery remains in principle what it was. The electronic brain with its prodigious capacity for calculation has yet to be applied to humble humdrum office calculations. If and when its mighty potentialities are geared down to accountancy work, the re-writing of this chapter will be exciting indeed."

About that time I had been to the Cavendish Laboratory, Cambridge, and gazed in awe on the "universal" electronic computer. When I looked at this impressive contraption, occupying the greater part of a good sized room and capable of doing the most abstruse and voluminous calculations

in a fraction of the time taken by other methods, I wondered how long it would be before this monster could be scaled down for ordinary commercial work. Within three years I was at the Business Efficiency Exhibition looking at the prototype of such a machine, and what was more, my Council had just placed an order for one—the first order in the country. The day Mr. Bird and I visualised in 1950 had come more quickly than we expected.

The computer will operate from April 1 next. From that day wages, costing, stores and accountancy calculations will be done electronically; and from April 1, 1955, I hope to do rates calculations in the same way. Several members of the staff will no longer be needed; the demands on the key-driven calculator, so long the mainstay of the office, will be reduced; and we should

have some ready reckoners for sale. Judged from this point of view alone, the computer is a portent indeed. Furthermore, as the machine will function as an integral part of a battery of punched card machinery it will become a link in a production chain. Should the machine fail to do what is expected of it—and we could not justify a standby—we should be in an unhappy position indeed: body, soul and spirit we have sold ourselves to this sleek and streamlined device, no larger than an office desk.

In the professional sense, the installation of this machine is just a transaction in the ordinary course of business: my Council, having always been, since the coming to Coventry of the late Sydney Larkin, in the forefront in the use of mechanical appliances, are merely replacing worn out machinery by the most modern available. There is, however, more than that. For one thing there is, even to the lay mind, a world of difference between computing mechanically by revolving cog wheels and computing by electrical impulses in valves. But there is something still more: the amazing capacity, speed and flexibility of electronics has in it something of the romantic. It is probably this which the public has sensed, for newspaper comment has been extensive and individual inquiries numerous, including

a large number from professional colleagues. Had it not been for the widespread interest in our installation, we should have waited until the computer was working, preferring to talk about what we had done, rather than what we hope to do. However, the glare of publicity in which we local government officers have to carry out our duties has forced our hand.

I shall set out what I see in the possibilities of electronics from the point of view of management.

The history of aids to calculation hardly needs to be recounted here; the use of logs, the construction of tables, the first primitive adding and calculating machines in the seventeenth century, the development—mostly in America—in the nineteenth century, and the coming in our own era of the more highly developed machinery with which our offices are full—all this is familiar to readers of *Local Government Finance*.

A moment's thought on the difference between office machinery now and at the time when those of us who are now middle aged entered the service, will suffice to show how great an advance has been made during the last 30 years. But though electricity has long been the motive power, though electro magnetic processes have been used in such machines as the punched card sorters, and though there have been facilities for electrical transfer of totals, the calculating process has been basically mechanical: counting has been done by means of cog or pin wheels.

The novelty of the electronic computer is that calculation is done by means of electrical impulses in closed circuits of valves, a series of these impulses being broadly equivalent to the teeth in the cog wheel. Impulses also cause information to be stored and give the instructions which set the calculations in progress, drawing upon information stored in the machine as required. This great capacity and flexibility, coupled with the high speeds at which impulses can be passed—many thousands a second—justify the statement that the electronic computer is not only different in degree, but different in kind, from existing calculators.

At present the commercial computer is working as a unit in a punched card outfit. The problem is fed in by punched cards, and the answer comes out in the form of holes in a card. This may not always be the case, for many experiments are in hand with other methods—for example, magnetic tape. During the last two or three years small electronic calculators have developed, and a handful of them are in operation. They will do a series of routine calculations rapidly. The difference between these calculators and the computer—which Coventry will use—is that the computer can be instructed to carry out a series of calculations

supplying some of the data needed from its own memory unit. The computer can, in particular, examine the answer it has reached at various stages in a chain of calculations, and then, depending on the size of this intermediate answer, proceed with one of several alternative subsequent programmes. Thus the machine can almost think as well as calculate. This feature is valuable, for example, in calculating income tax during the preparation of wages, when several different rates of income tax may have to be applied, according to the amount of taxable pay revealed part-way through the calculation.

Electronic computers on sale for commercial purposes are guaranteed by the makers to be reliable. Moreover the user can satisfy himself of the correctness of the calculations by regularly passing through the machines test cards containing problems the answers to which are known. We shall rely on test cards in Coventry, though in the case of simple calculations there will be sufficient capacity on the computer to allow of a supplementary check—that of automatically and sometimes simultaneously doing the calculation twice by different methods, the machine matching and comparing the answers.

The new battery of machines in Coventry will do all the accounting work which the present machines do—wages, salaries, stores, costs, lists of payments, nominal account tabulations, statistical tabulations and the like. In addition it will do the rate demands and rate records. Being more capacious and up-to-date generally than the present machines (purchased in 1938), the new installation will produce more and better work and do it more speedily, an advantage which would accrue wherever older 36 column equipment is replaced by modern 80 column equipment. But because the new installation includes the computer and therefore does the calculating as well as the tabulating there will be also a spectacular saving of labour and there are potentialities, which can as yet be only dimly guessed, of processing much more data than has been the case in the past, and reducing it to significant terms. These are the advantages which flow from the introduction of the electronic principle.

The labour saving is very real. Unfortunately, it is impossible to separate, in the case of Coventry, the savings due to the electronics and those due to the purchase of larger and more up-to-date punched card equipment. The saving of staff when the new machines are in full operation, and all the proposed work has been transferred to them, has been calculated at a high figure. Possibly the effect of the new machines needs to be discounted slightly, because they will operate with some revised

clerical procedures which may contribute to the saving. Also one finds in practice, that theoretically calculated savings are apt to be on the high side. Even allowing for these factors, there remains an indisputable saving of staff which far outweighs the additional cost of the electronic machines.

It would be difficult to exaggerate the potentialities of the machines themselves or of the likelihood of modifications in design, because the electronic computer is in its infancy. One has only to pick up a book on the subject of electronics to see the possibilities.† In the case of the electronic calculator these include the use of crystals instead of valves, many alternative ways of feeding information into the machines, alternative devices for storing results, and many others.

One could, however, easily exaggerate the part to be played by the machines. It would be wrong to regard the coming of electronic machinery as a new era in accountancy and the critical reader may justly regard any heading of "Brave New World" as something of a journalistic exaggeration. Many of the old difficulties remain: for example, in costs; the labour of making initial allocations, the dependence upon the accuracy of the original data, the problem of finding genuine units of service to which to attach costs, and the problems of interpretation of results. There is also our perennial overriding difficulty in local government of getting the data heeded by those responsible for management.

But there will be a difference in future. We shall be able to process much more data at less cost, and shall have an almost painless way of doing elaborate allocations. We must therefore think of our accountancy and costing problems in the light of our new techniques and not in terms of the more limited capacities of other methods. Most important of all, we must make those responsible for using the results of our efforts vividly aware of what we can do. Our technique has become refined, and we should encourage heads of departments to make us use the tools at our command to their fullest use. They, in their turn, can then make the most use of us.

To accomplish this, every staff will need a specialist, versed in the mighty potentialities of the machine, thoroughly familiar with local needs, and charged with the duty of ensuring that the computer is made to serve the authority and its departments to

† The rapid turnover of staff in Coventry should enable us to avoid the problems of redundancy.

§ Since drafting this article I read of an electronic calculator on sale in the States which the makers claim does in two minutes a calculation which, using the same method of solution, would take fifteen years by pencil and paper.

the limit of its capacity. The chief financial officer will certainly not be able to settle the applications of a computer himself after a few interviews with the representative of the supplying firm.

As the adoption of electronic machinery spreads in local government and public authorities, we shall be very interested in Coventry to watch what our colleagues will regard as the downward limit in size of authority beyond which the electronic computer cannot be justified. This is by no means an easy matter to determine, for we are dealing with a type of machine which does not need to be kept continually working to be economic. One large national concern, with very involved wages calculations, has provisionally decided that it could justify an installation for this work alone.

In Coventry I was fortunate in having the Treasury O. & M. team in the office when the renewal of the punched card machinery came up for consideration. Their calculations, based upon methods in use for testing the economics of proposed mechanical installations in Government Departments, confirmed our local views that, in Coventry, we could well justify the installation, though the computer will be at work for only part of the time.

One possibility to be explored is that of local authorities pooling their work to get the full advantages of the new technique, or of the larger authority, with spare capacity on its machines, doing the hard core of the calculation work for adjacent smaller authorities. I hate to think of

people spending most of their working lives, doing, wholly or partly by mental methods, work which could now be done so effortlessly by machines.

It remains for me to explain what machines we are hiring in Coventry. (No one I imagine would want to buy punched card machinery in days of such rapid development). We were, the manufacturers believe, the first users of Powers machines in local government, the original installation being in the early twenties, and the replacement being a Powers "Four" in 1938. This installation is now reaching the end of its useful life. Accordingly some eighteen months ago we asked the leading manufacturers of office machinery to submit schemes. Preliminary investigation showed that our work would be best done on punched cards and we therefore eliminated all the proposals except those of three leading suppliers of punched card machinery—*British Tabulating Machine Co. Ltd.*, *I.B.M. United Kingdom Ltd.*, and *Powers-Samas Accounting Machines Ltd.* After the most careful consideration my Council chose the I.B.M. machines. For internal reasons it was desirable that the new installation should start in its entirety on April 1 next. The Council therefore had particular regard to the fact that this firm could supply the computer at an appreciably earlier date than the Powers Company, who had also included an electronic computer in their proposals. I need hardly say that both my Council and I were sorry to break the association with Powers who had served us

well over so many years, and with whom we were—and are!—on the best of terms.

The new installation consists of—

No.	Description.
4	131 Alphanumeric key punch
4	156 Alphanumeric verifiers
1	Sorter
1	Collator
1	Reproducer
1	Gang Summary Punch
1	Interpreter
1	Type 626 Computer
2	420 Accounting Machines

I would conclude on a personal note by saying how grateful I am that at the time I had to make recommendations to my Council, I had the Treasury O. & M. team in the office. Their expert independent appraisal was of great help, though, with the detachment of our Civil Service which we know and admire so much (but which I always have great difficulty in explaining abroad), they were scrupulously careful to leave the decision itself to local determination. That I have been able to visualise such upheavals in the office during my presidency, is due to the high quality of my staff generally, and in particular to the deep understanding of the problems involved shown by my deputy, Mr. J. B. Woodham, and one of my principal assistants, Mr. J. D. Llewellyn, to say nothing of the stalwarts of my machine room, some of whom have been happily married to holes in cards for many years. They will now have to take electrical pulses in closed circuits into the family circle!

## Liquidators and Leases

By W. H. D. WINDER, M.A., LL.M.

IN A VOLUNTARY LIQUIDATION A COMPANY'S unexpired leases present the liquidator with various problems the solutions of which as the law stands at present are not always very clear-cut. If the position is uncomplicated by the existence of any sub-leases or assignments, and the lessor is willing to accept a surrender of the company's lease, then there is no difficulty. But if, in more difficult circumstances, the liquidator should turn to the leading

text-books for guidance, he will find rather vague general statements such as that in *Palmer's Company Law* (page 403) to the effect that "a solvent company will not be permitted in winding-up to distribute its assets among the shareholders without regard to the landlord's right to future rent." Does this mean that assets should be set aside in the liquidation to meet future liabilities under the lease? Or should the lessor prove in the winding-up in

respect of the company's liabilities under the lease? These and other questions were carefully analysed and discussed by Mr. Justice Roxburgh in the case of *In re House Property and Investment Co., Ltd.* (1953, 3 W.L.R. 1037), and there is no doubt that this decision is of the first importance regarding leases in voluntary liquidations.

The facts were shortly as follows. A lessor demised valuable property to a company for a term of 90 years. Soon afterwards the company went into voluntary liquidation and with the lessor's consent assigned the lease to its parent company. Later, the parent company, which was the company concerned in the proceedings, passed a resolution for voluntary winding-up, and in the liquidation assigned its leasehold interest to a substantial



assignee for £46,000, with consent of the lessor. The assets available for distribution were in excess of £2 million. The rent under the lease was £5,000, the rack-rent over £9,000. The lessor declined to accept rent from the assignee, and took out a summons in which he claimed that there should be sufficient assets set aside in the liquidation to meet all future liabilities for rent and for the performance of the lessee's covenants. Alternatively, he claimed the right to prove in the winding-up in respect of the company's liabilities under the lease. It was held that the lessor's proper course was to lodge a proof in the winding-up for the difference between the value of the lease with and without the benefit of the original lessee's covenants.

### Assignment of Company's Lease

In general, if the company's lease has been assigned with consent, or without consent of the lessor if no consent is needed, then the lessor cannot both refuse rent from the assignee or the performance of the other covenants by him and at the same time assert a claim against the company as original lessee. If the assignee tenders rent and observes the covenants, then the lessor cannot sue the company in liquidation for the particular sums tendered. He has not the right to elect whether he will accept the rent from the one or the other. If it is tendered by the assignee and if he does not accept it, he loses all rights in respect of that particular portion of rent. The normal principle applies: the landlord can recover the rent after an assignment either from the lessee because of privity of contract or from the assignee by reason of privity of estate, but he must look to the assignee in the first instance if the assignment is a permitted assignment. Non-permitted assignments raise other issues, but if the assignment is permitted, as it was in the recent case, then any proof which may be allowed in the liquidation cannot be in substitution for rent duly tendered by the assignee.

### Setting Aside Assets for Future Liabilities

Proof was allowed in the liquidation and the lessor's claim that he had an absolute right to the setting aside of a fund out of the company's assets to

meet future liabilities under the lease was rejected. If there were such an absolute right it would prevail in all circumstances, even when a company had assigned a lease for value and thereafter wanted to be dissolved. Mr. Justice Roxburgh said that if he were to agree that there was such a right to a fund it would be setting a precedent which would open the way to quite intolerable abuses. Assets would have to be set aside whether the company was a wealthy company or just above the borderline of solvency. The setting aside of assets might be a possible course but was not a proper one in the present case. Would the Court have to carry out an elaborate investigation into the value of the company's covenants in order to decide what would be a just sum to set aside in the circumstances? In the *House Property & Investment Co., Ltd.* case the assignee was a person of apparent substance and the rent the lessor was entitled to was far less than the rack rent obtainable. It was unlikely that there would ever be a claim on the fund if it were set up. The learned Judge said that he would never set aside a fund which would cover all the rent in a case in which it was unlikely that there would ever be a claim upon the fund at all and in no circumstances would he set aside £200,000.

But in refusing this claim by the lessor the Judge agreed that there were older precedents in which a fund had been set up by the Court's direction. These older cases are mentioned in some of the textbooks as indicating that there is some sort of practice in favour of setting aside assets in a liquidation to satisfy possible claims by the lessor. Mr. Justice Roxburgh, however, stressed that these cases were decided before the Companies Act of 1929 for the first time gave the liquidator the power to disclaim an onerous lease. He thought that the occasion for directing assets to be set aside would nowadays arise seldom, if ever. In present circumstances, particularly the state of the judicial decisions of recent years and the introduction of the right of disclaimer, it was very unlikely that any setting aside would be made in any future case, though he did not rule out that possibility. There had been no disclaimer in the present case because,

far from being onerous, the liquidator realised £46,000 on the sale of the lease.

### Assignments for Value

Another important factor in the case was that the assignment had been for value and there was no suggestion that the assignee was a man of straw. In the older cases in which assets had been set aside there had been no assignment for value. The case of *Gooch v. London Banking Association* (32 Ch.D. 41), for example, is distinguishable on this ground. If the older practice were followed in cases of assignments for value, where would it stop? Supposing that the rack rent were twenty times the ground rent, would the man entitled to the ground rent (which would be covered many times over) have a fund? Where would the practice stop if he were entitled to it? If the man whose lease has 70 years to run, what about the man who has 99 years or longer? There is no difference of principle.

Mr. Justice Roxburgh has now done his best to put a stop to this practice, if it has been a practice, of setting aside assets. He declared himself in this way:

If once this doctrine were incorporated in our law it would lend itself, not in this case, but in cases which would arise, to terrible abuse. It would put a person who was entitled to some quite nominal rent for a very long period of years in a position to exact from any company which wanted to go into liquidation preposterous sums of money.

### Clogging the Liquidation

To accede to the doctrine would be putting the company in a position of having to sacrifice a large sum of money in order to purchase the right to go into liquidation—a right conferred upon it by Act of Parliament. A company has a statutory right to put itself in a position not to be able to fulfil its future obligations. That position is now plainly visualised by Sections 316 and 317 of the Companies Act of 1948. In a sense, of course, the original lessee, by dissolving itself, is breaking its contract, but it is entitled to do so provided the Act is complied with at the breaking. In other words it is entitled to dissolve itself in accordance with the provisions of the Act and, in particular, Sections

316 and 317. It is part of the policy of the law that a company should be able to wind itself up even though it is not insolvent. It is one manifestation of that wide branch of the law which abhors perpetuity. Mr. Justice Roxburgh was quite certain that although it does not say so in express terms the policy of the Companies Act carries the implication that the liquidator has to deal with the liabilities within a reasonable time and to deal with them finally within a reasonable time, distributing remaining assets among the members within a reasonable time. Parliament cannot have contemplated liquidations of 999 years or 99 years.

What the lessor was saying was: "If you cannot comply with the letter of your bond by remaining liable on the original lease you must give me a better bond." It was held that he had no right to argue thus; he had the right to compensation by proving in the winding-up. He had no right to capitalise the circumstance that the company wanted to do what it had a statutory right to do, namely, to go into liquidation.

#### Lessor's Proof in Winding-Up

It is plain from the authority of *James Smith & Sons (Norwood), Ltd. v. Goodwin* (1936 Ch. 216) that in principle the lessor can prove in a liquidation if the lease has not run its course. The essential facts in that case were similar to those in *In re House Property and Investment Co., Ltd.*, except that in the earlier case the assignment took place before the liquidation. But this was held not to be a material distinction in law. In the earlier case the liquidator distributed the assets without making provision for future rent due under the leases and in an action brought by the lessors against the liquidator for acting in this way it was held that he was liable in damages since the liability under the lease was one which ought to have been admitted to proof. In not taking steps to have the value of the contingent liability ascertained, he had committed a breach of his statutory duty to pay or provide for the liabilities of the company. This decision of the Court of Appeal is a clear recognition of the lessor's *locus standi* as regards proof.

It may be doubted if the words "contingent liability" are quite an accurate description of the company's liability in the winding-up. The position is that the lessor can demand the rent from the assignor of the lease if the assignee does not pay to the lessor or at least tender it. The lessor cannot get the rent more than once. The liability can conveniently, if not strictly, be described as contingent, because it becomes an actual liability if the assignee fails in his obligation; if that happens then the lessor falls back on his right against the company which was the tenant under the lease.

#### The Question of Valuation

It has been suggested that such a claim in liquidation is one which it is impossible to ascertain in money terms, that it is so contingent that it is not possible to put a money value upon it. The Courts have not accepted this suggestion. Lord Macnaghten said in *Hardy v. Fothergill* (13 App. Cas. 351):

A covenant such as that which has given rise to the liability as between the lessor and the lessee is not uncommon. It is not an uncommon thing for leases to be assigned, and for the assignee to undertake the assignor's liability. I cannot think that a person of practical experience in dealing with leasehold property would have any great difficulty in making a fair estimate of the value of such a liability when he was once made acquainted with the circumstances of the particular case.

The implication is that the liquidator should value or obtain a valuation of this "contingent" liability.

The lessor will prove for the value of the original lessee's covenants in the particular circumstances of the particular case, the benefit of which he will lose by the original lessee's dissolution; not for the rent, because, if the assignee duly pays the rent—which he will do if the lease is beneficial, if only to avoid forfeiture—no rent could ever be recovered from the original lessee. Precisely the same applies to the other covenants in the lease. If the premises are duly kept in repair—as, again, they undoubtedly will be by the assignee if the lease is beneficial, if only to avoid forfeiture—then no sum in cash would ever become payable by the original lessee. The sum for which a proof can be lodged is the difference between the market value of the particular lease at

the date of valuation with the benefit of the original lessee's covenants, and of the same lease without the benefit of the original lessee's covenants. In the recent case the parties had, fortunately for themselves, agreed on a valuation. A forensic contest on such a question of valuation would be a long drawn out affair. Accountants might not relish the task of taking part in it.

## Letter to the Editor

### Mischievous Accounting?

SIR,—It is a great pity that accountancy bodies are not yet unanimous in acceptance of the "replace" instead of the "historic" basis of depreciation provision.

In retirement, I have been pondering company accounting primarily from what may be called the "social" angle.

To explain briefly my adjective "mischievous" may I present Mr. Alfred Jingle, as auditor of a company, trying to answer some questions put by a deputation representing the employees:

- (1) "Net profit large?—not really profit you know—only what we call it—depreciation only on original cost—quite inadequate—replace prices much higher—don't know how much."
- (2) "Dividend enormous?—your Savings Certificates only 3 per cent.?—dividend not really 50 per cent.—our way describing it—issued capital small—real capital large—real rate?—difficult question that—very."
- (3) "Dividends shown net, wages gross—many shareholders may recover tax—comparison unfair and misleading?—can't deny it."
- (4) "Ploughed back profit—fresh capital—expansion business—very desirable—why should shareholders own it all in addition adequate dividend?—why not share for workers?—employees stock?—perhaps you're right—excellent idea."

Is it an exaggeration to suggest that, if the four procedures indicated above had been organised in the Kremlin, they could scarcely have been improved upon as a means of intentionally creating the maximum misunderstanding and disharmony in industrial relations?

Yours truly,  
R. E. JAMISON.

Rostrevor, Co. Down, N. Ireland,  
February 10, 1954.



# Taxation and Retirement Provisions

The second "Millard Tucker Committee," officially the Committee on the Taxation Treatment of Provisions for Retirement, was set up in August, 1950, by Sir Stafford Cripps, then Chancellor of the Exchequer. It was under the chairmanship of Mr. J. Millard Tucker, Q.C., and its other members were Mr. W. S. Carrington, F.C.A., Sir John J. Cater, Mr. H. Weston Howard, C.B.E., Mr. George Woodcock, M.A., and Mr. R. C. Simmonds, F.I.A.

The committee was given the following terms of reference:

1. To review the income tax law relating to superannuation funds and other arrangements, whether contractual or voluntary, for the provision, on retirement or death of persons holding an office or employment, of pensions or other benefits for those persons or their dependants;
2. Generally, to review the law governing the treatment for income tax purposes of payments made by, or for the benefit of, individuals with a view to providing for the individual in his retirement or old age, or for his dependants after his death, and the treatment for income tax purposes of sums received by way of such provision;
3. To consider whether any amendment of the law in regard to these matters is necessary or desirable; and, in particular, to consider whether the scope of income tax relief in respect of payments of that nature should be extended and, if so, in what circumstances and subject to what conditions, having special regard to the fact that contributory pensions schemes on the lines of those commonly adopted by industrial concerns are not at present available to all persons holding an office or employment, and are not applicable to an individual carrying on a profession or business.

Further, Mr. Hugh Gaitskell, then Chancellor of the Exchequer, stated in answer to a Parliamentary question on October 24, 1940, that the treatment for tax purposes of purchased annuities fell within the committee's terms of reference.

The report of the committee was published on February 17 (Cmd. 9063, Her Majesty's Stationery Office, price 5s. net). It consists of 160 pages and, as well as making a large number of far-reaching recommendations of great social, economic and financial importance, it provides for the first time an authoritative and exhaustive survey of the complicated problem of the tax treatment of pension and superannuation funds. It is admirably arranged and lucidly argued, and has been prepared in such a way that Departmental work upon it can be reduced to a minimum. Also while the committee states that "the question is not one on which it would be proper for us to make a definite recommendation," it continues "we might suggest that careful consideration should be given to the possibility of making any changes in the law which may result from our report effective from the date of its publication."

The three articles which follow give, firstly, a complete list of the recommendations of the majority of the committee, in summary form (the numbers in brackets refer to the paragraphs of the report); secondly, an explanation of the most important of these recommendations; and, finally, a brief discussion of some of the implications of both majority and minority reports. Our Editorial on page 87 also discusses some of the broader aspects of the committee's report.

## Summary of the Recommendations

### Life Assurance Relief (Chapter 2)

The present basis of relief should continue unchanged except that (a) relief should be withdrawn for the future from payments which will qualify for expenses relief and from premiums on deferred annuity contracts taken out before June 23, 1916, and (b) the one-sixth upper limit should be modified as recommended in Chapter 6 (45, 414).

### Future Retirement Benefit Schemes for Employees (Chapter 4)

(i) All future schemes should be submitted to the Board for approval (143).

(ii) The main proposals regarding future approved schemes for employees, other than superannuation schemes, are, in summary:

(a) The treatment described below should apply to any future approved scheme made by an employer for the provision for any of his employees of benefits on retirement or death, including benefits for widows, children, and dependants. Benefits payable solely in the event of death or disability as the result of an accident of the sort described in paragraph 188, however, we regard as being outside the definition of retirement or death benefits.

(b) It should apply to schemes made by any body corporate or unincorporate for the benefit of any of its employees, or by any other employer for the benefit of an employee engaged in the employer's trade, profession, or business or in

the management or maintenance of the employer's real property.

(c) It should not be affected by the transfer of an employee who has been employed in this country for more than a merely nominal period by a resident company to the service of an overseas subsidiary company.

(d) Subject to safeguards against abuses such as those referred to in paragraph 145, the contributions of an employer to an approved scheme should be treated for taxation purposes as trading expenses, management expenses, or costs of maintenance, as the case may be. Annual contributions should be allowable in the years in which they are paid. Other contributions should be allowable either in the year of payment, or in instalments in that and future years, as the Board may direct.

(e) Reasonable pension payments by an employer himself to a former employee or to the widow or dependant of a former employee should be allowed as trading expenses (or management expenses or costs of maintenance, as the case may be).

(f) Reasonable lump sum benefits paid by an employer himself to an employee, or to the estate, widow, or dependant of a deceased employee, and lump sums paid by the employer to purchase benefits for an employee or his widow or dependant should be allowed as trading expenses (or management expenses or costs of maintenance, as the case may be) either in the year of payment, or spread over that and future years, as the Board may direct.

(g) An employee should not be taxed in

respect of the employer's actual or notional contributions to the scheme.

(h) An employee should receive expenses relief in respect of his own contributions, whether made annually or otherwise, up to a limit of 15 per cent. of his remuneration in any year. Any excess contribution should be available for relief in a later year in which the 15 per cent. limit is not reached, so long as he is in the same employment.

(i) Investment income arising from accumulating contributions to an approved scheme should be exempt from tax. This should extend to the income of the annuity fund of an assurance company, and, if the necessary segregation can be achieved, to the income of so much of the life fund as relates to assurance contracts forming part of the scheme.

(j) Pension benefits should be taxed year by year as they arise. Approved lump sum benefits paid to a retiring employee, or to the widow, child, or dependant of a deceased employee, should be tax-free. Any excess over the tax-free limit which takes lump sum form, because the pension it would buy would be trivial, should be taxed by the "top-slicing" method (see paragraph 162). A lump sum paid in commutation of a pension on an employee's retirement in an exceptional case of serious ill-health should be exempt from tax up to one-quarter or £1,000, whichever is the greater, but with an overriding exemption limit of £10,000. Any excess over this exemption limit should be taxed by the "top-slicing" method. Lump sum benefits (including refunds of



contributions) paid to the estate of a deceased employee who left no widow or dependant should be taxed at the standard rate, but should not be treated as taxed income of the estate or of any beneficiary of the estate for any other purpose.

(k) Where an employee's contributions to an approved scheme are refunded to him in his lifetime, with or without interest, the refund should be taxable. Income tax should be deducted from the amount of the refund at the standard rate, but the employee should be entitled to claim that it should be adjusted to tax on the amount of the refund at the average rate at which he obtained relief on his contributions in the last six years of his service. Sur-tax equal to the aggregate sur-tax relief allowed on the contributions which are refunded, and on any addition by way of interest, should be separately charged. The income tax and sur-tax should be repayable if within twelve months the employee pays the net refund into another approved scheme, and also gives a mandate for the repayment of tax to be made directly into that other scheme. Where a policy is taken instead of a cash refund, the tax appropriate to its surrender value at that time should be deducted from any subsequent cash proceeds of the policy paid in lump sum form, and paid over to the Revenue.

(l) An employer's contributions to an approved scheme which are refunded to him, or a surplus paid to him on the winding-up of a fund, should be treated as taxable income.

(m) A scheme should be entitled to automatic approval if it satisfies all the following conditions, and one that does not satisfy them all should be capable of approval if the Board in their discretion see fit:

(i) The employer is resident in the United Kingdom and the undertaking to which the scheme relates is carried on wholly or partly in the United Kingdom.

(ii) The employer contributes at least one-third of the total cost of the scheme, either by making advance payments to a third party or by himself paying the actual benefits.

(iii) Each employee is given a prescribed title to defined benefits and the terms of the scheme are made known to the employees concerned.

(iv) The diversion of the employer's own contributions to the scheme to any other purpose and their refund to him except where circumstances arise which defeat the purpose of the scheme are prohibited. The refund to an employee of his contributions before he has become entitled to the benefits provided by the scheme is similarly restricted to cases in which the employee leaves the employment.

(v) The benefits afforded by the scheme will accrue only on retirement at a specified age or on earlier incapacity, or on death (approval should not be required, however, if the benefits are payable solely in the event of death or disability as the result of an accident arising in the course of or in connection with the employment).

(vi) The nature of the benefits afforded will be the same in relation to all the persons to whom the scheme relates, but a scheme relating to more than one class of employee may be regarded as so many separate schemes for this purpose.

(vii) The scheme is exclusively for the benefit of the employee or employees and his or their widows, children, surviving dependants, or legal personal representatives, but on an employee's taking up different employment, transfer payments to an approved scheme connected with the new employment may be permitted.

(viii) On a winding-up of a scheme, the assets are required to be used primarily to meet the claims of existing and prospective pensioners, and are to be applied in the purchase of non-commutable and non-assignable annuities for them, except to the extent that the scheme could itself pay lump sum benefits in the ordinary course. If a surplus should remain after all such claims have been fully satisfied, provision may be made for it to be used to augment the annuities appropriately, or for it to be paid to the employer.

(ix) The aggregate value of the benefits payable on retirement will not exceed that of a pension of one-sixtieth of final remuneration, as defined below, multiplied by the number of years of service with the employer, up to a maximum of two-thirds of final remuneration, except that if service with the employer exceeds forty years and is extended beyond the age of sixty, an additional sixtieth of final remuneration may be added for each such additional year of service, up to a maximum of five additional sixtieths.

(x) Where the total value of the benefits payable on retirement does not exceed £4,000, not more than £1,000 may be payable in tax-free lump sum form. In other cases, at least three-quarters of the value of the benefits payable on retirement or, where they exceed £40,000 in value, the excess over £10,000, will be in the form of non-assignable and non-commutable pensions. Where the pension would be trivial, however, and in exceptional cases of ill-health where the expectation of life is very short, provision may be made for the payment of the whole benefit in lump sum form.

(xi) The aggregate value of the benefits payable on death or disability during service will not exceed the value of the maximum benefits on normal retirement that would have satisfied condition (ix) if the employee had survived and remained in the employer's service to the specified retirement age, but had had no further increases in remuneration.

(xii) On the death in service of an employee who leaves a widow, child, or dependant, not more than twice the annual amount of the employee's final remuneration, or £1,000, whichever is greater, but in any event not more than £10,000, can take tax-free lump sum form, and the remainder will be non-assignable and non-commutable pensions to the widow, child, or dependants, or any of them.

(xiii) The aggregate value of the benefits payable on the death of a former employee after his retirement will not exceed the value of the benefits to which he himself became entitled on his retirement, less any benefits actually paid to him or, if it is greater, the value of a life pension to his widow half the size of the pension he had been receiving.

(xiv) The benefits payable on the death after retirement of a former employee who leaves a widow or dependant will be mainly non-assignable and non-commutable pensions. The tax-free benefits should not be greater than twice the annual amount of the employee's final remuneration, or £1,000, whichever is greater, but in any event not more than £10,000, less the total benefits actually paid to him on and after his retirement, up to the time of his death.

(xv) No period of service of a person, in whatever capacity, rendered by him while he is a director of a company, other than a whole-time service director, will be taken into account for any of the purposes of a scheme made by that company.

(xvi) Final remuneration, for the purposes of these conditions, should be the average remuneration over the last three years' service with the employer concerned.

These sixteen conditions relating to automatic approval are more numerous and more complicated than the corresponding conditions in Section 21, Finance Act, 1947 (1952, s. 388). This is because we have made the field of automatic approval as wide as we possibly can, and reduced the field in which the Board will have discretionary powers to that in which the relevant factors could not very well be defined in an Act of Parliament, or could not be so defined within a reasonable compass.

(iii) Employees should be immune from tax on contributions or notional contributions by their employers to schemes satisfying all the conditions of approval except that requiring contributions to be effectively alienated (232, 233).

(iv) Employees should be immune from tax on contributions by their employers to provident funds, if the contributions for each employee do not exceed 10 per cent. of his remuneration or £100 a year, whichever is less, and do not exceed £1,000 in aggregate throughout his service (235).

(v) Staff assurance schemes paying lump sums should be treated similarly (236).

(vi) Employers' contributions to unapproved schemes should be allowed as trading expenses, either in the year of payment or spread forward, but employees' contributions should not qualify for expenses relief and investment income should not be exempt (239).

(vii) Employees should be taxed on the amount of their employer's contributions or notional contributions to unapproved schemes (246).

(viii) The consequences of failure to secure approval of a scheme should be made known widely to employers and employees (248).

(ix) Ex gratia pensions, other than those paid purely on compassionate grounds, should be taxed, whether paid by the former employer (or his successor) or by some other person (251).

(x) Ex gratia lump sums not exceeding £1,000 should be exempt. Those between £1,000 and £4,000 should be exempt to the extent of £1,000. Of those over £4,000, one-quarter, or one-quarter of the capital value of the maximum contractual benefit that would have been approvable, whichever is less, with an overriding limit of £10,000, should be exempt. Successive benefits should be aggregated for the purpose of the £10,000 limit, and abuse of the £1,000 limit by frequent changes of employment should be prevented. Any excess over the exemption limit, up to the capital value of the maximum approvable benefit, should be taxed by a top-slicing method. Any excess over the capital value of the maximum approvable benefit should be taxed as additional remuneration for the last complete year of service (252).

(xi) Legacies to employees should not be taxed (253).

(xii) Ex gratia lump sums to the dependants of deceased employees should be exempt up to £1,000 or twice the amount of the deceased employee's final remuneration, whichever is greater, with an overriding limit of £10,000, less any benefits already received if the employee had retired before he died. Any excess should be taxed by a top-slicing method (256).

(xiii) The Board should be consulted before statutory schemes are set up by public general Act of Parliament. Schemes set up by private Act should require approval (257).

(xiv) Employees' contributions to statutory schemes, whether compulsory or not, and whether made to secure retirement benefits or benefits for widows and orphans, should rank for expenses relief (258, 260).

(xv) Employees' non-annual contributions to statutory schemes should rank for expenses relief. The aggregate amount on which relief is given in any year should not exceed 15 per cent. of the employee's remuneration, and any excess should be carried forward to subsequent years (259).

(xvi) Lump sum death benefits from statutory schemes, to the extent that they exceed the tax-free limit recommended for non-statutory schemes (see paragraph 299 (m) (xii) and (xiv)), should be converted into pensions or taxed at the standard rate (261).

(xvii) Lump sum payments to newly engaged employees should be taxed as income of the year of receipt (266).

(xviii) Lump sum payments for the surrender of future pension rights should be taxed as income of the year of receipt, except to the extent that the build-up has been taxed as a result of the disapproval of the scheme (268).

### Existing Retirement Benefit Schemes (Chapter 5)

(i) Existing members of existing schemes should have an option to remain as they are or to become subject to the new treatment. New members of existing schemes should all be subject to the new treatment (283).

(ii) Existing members who opt for the new treatment and who subsequently receive a refund of their contributions should be taxed according to the new treatment on so much of the refund as exceeds the refund to which they would have been entitled immediately before the change. The latter part should be subjected to the old treatment (294).

### Self-employed persons, controlling and other Directors, and Non-provided-for Employees (Chapter 6)

(i) Schemes for individuals in these classes, and group schemes, should require approval by the Board. Approval should be automatic where certain conditions are fulfilled, and discretionary where they are not all fulfilled (373).

(ii) Schemes should provide for retirement at a selected age between 65 and 70 (60 and 65 for women), but the Board should have power to fix lower ages for particular occupations (375).

(iii) Contributions to approved schemes should attract full income tax and sur-tax relief if they are within the limits summarised in paragraph 419 (386, 392, 400).

(iv) The Board should have power to waive wholly or partly the scaling down of the percentage rate of contribution on self-employed persons' and controlling directors' earnings over £5,000, with a right of appeal to the Board of Referees (394).

(v) The limit of one-sixth of total income applicable to life assurance relief should be increased by one-quarter of the permissible percentage of earnings for premiums on temporary life assurance policies providing a lump sum on death before the attainment of a stated age, if that age is not more than the chosen retirement age (414).

(vi) Any excess of a contribution over the allowable limit should be carried forward and allowed in the first subsequent year in which the limit is not reached (422).

(vii) Where earnings are found to have been under-assessed, additional relief for the year concerned should be allowed if the appropriate additional contribution is paid within six months after the additional assessment has become final (422).

(viii) Subject to these two exceptions, relief for any year should be confined to contributions paid in that year (422).

(ix) Earnings, in relation to the self-employed, should comprise earned income as defined for income tax purposes, excluding income from woodlands not assessed under Schedule D, and excluding income

derived from the mere owning of land or investments, but including income derived by a dealer in investments from the investments he holds, and including an inventor's income from patent rights (423).

(x) Profits should be computed in accordance with the Rules of Cases I and II of Schedule D, but with modifications regarding interest and other payments made under deduction of tax, capital allowances, and losses (424).

(xi) Earnings, in the case of directors and employees, should be the remuneration assessable under Schedule E for the year concerned (425).

(xii) Relief in Schedule E cases should be confined to contributions paid in the year of claim, but subject to modifications similar to those applicable to the self-employed where the assessable remuneration is not finally determined until after the end of the year (425, 426).

(xiii) Remuneration of controlling directors of investment companies (as defined for sur-tax) should not rank as earnings for this purpose (427).

(xiv) Married women should be dealt with separately from their husbands, as though they were unmarried (428).

(xv) Income from the investment of contributions should be exempt (429).

(xvi) Contributions to a fund should not be permitted to exceed the maximum qualifying for relief, and any surplus shown to have arisen in a fund should be used, as far as possible, to increase annuity rates (429).

(xvii) Apart from the temporary life assurance for a lump sum if death occurs before the chosen retirement age, benefits must be non-assignable life annuities, non-commutable except as indicated in (xxi) below. Provisions for the refund of contributions on death or incapacity before the retirement age, and for the conversion of the annuity wholly or partly into a life annuity for a surviving widow or dependent children, should be optional (430).

(xviii) Benefits should not be payable before the attainment of the chosen retirement age except on earlier incapacity or death (431).

(xix) Where incapacity is proved, surrender of the annuity for a lump sum or an immediate lesser annuity should be permitted. Arrangements for the payment in such a case of a larger annuity than the actuarial equivalent of the surrender value should be permitted if the total premium is within the permissible limits (433).

(xx) The refund of contributions in other circumstances should be prohibited (434).

(xxi) Commutation for a tax-free lump sum of up to one-quarter of the annuity, or so much as would produce a lump sum of £1,000, whichever is the greater, but with



an upper limit of so much as would produce £10,000, should be permitted (435-437).

(xxii) The £1,000 and £10,000 limits should apply to the aggregate of all lump sum benefits an individual may receive (438).

(xxiii) Annuities received under approved schemes should be taxed in full (439).

(xxiv) Where the capital value of the balance of an annuity, after the permitted commutation, is under £500, that balance should also be commutable, subject to the taxation of the resulting lump sum by a top-slicing method (440).

(xxv) Any excess over the permissible tax-free lump sum which may be taken in lump sum form in a case of incapacity should be taxed by a top-slicing method (441).

(xxvi) Where the lump sum received exceeds the tax-free limit in any other case, the excess should be taxed without spreading, unless within three months it is converted into a non-assignable, non-commutable, and fully taxable, annuity (442-3).

(xxvii) Refunds payable on death before the retirement age should be converted into non-assignable annuities for the widow or children, if any, except that £1,000, or one-quarter of the refund, whichever is the greater, but not more than £10,000, should be permitted to be retained as a tax-free lump sum. If there is no widow or child, the refund should be taxed at the standard rate (444).

(xxviii) Annuities under approved schemes should be treated as earned income (445).

(xxix) Lump sums received under temporary life assurance policies should be free of tax (446).

(xxx) Assets distributable on the winding-up of an approved fund should be used to acquire appropriate annuities for the members (447).

### **Employees with Existing but Inadequate Retirement Benefits (Chapter 7)**

The treatment recommended for non-provided-for employees should be applied, with these modifications:

(a) the permissible percentage should be computed on the remuneration plus the estimated annual cost to the employer of regular annual contributions which would secure the benefit he is in fact providing, and

(b) the maximum relief should be the permissible percentage, as above, less the estimated cost to the employer (as added to the actual remuneration in (a)) and the employee's own contribution to the employer's scheme (466).

### **Changes of Occupation (Chapter 8)**

(i) An employee becoming self-employed or a director should be permitted, without tax liability, to pay into a scheme relating to the new occupation any sum withdrawable from his former employer's scheme (471).

(ii) If an employee who was formerly self-employed or a director receives an ex gratia lump sum retirement benefit from his employer, any lump sum benefit from any scheme he has belonged to should be taken into account in determining the exempt part of the ex gratia lump sum (473, 476).

(iii) An approved fund for employees should be permitted to pay a member's actuarial interest to an approved fund or scheme for self-employed persons which he has joined, without any tax liability, and to receive in respect of a new member any sum he has withdrawn from an approved fund or scheme he has left (475).

### **Purchased Annuities (Chapter 9)**

(i) The part of each periodical payment representing the estimated capital content should be exempted from tax. The similar

treatment already accorded to annuities—certain should be made statutory (503).

(ii) The capital content in each year's payments should be computed by dividing the actual sum paid as purchase money, whether by a single premium or a series of premiums, by the average expectation of life at the age when the annuity commences (505).

(iii) The investment income of the annuity funds of life assurance companies should be exempted from tax. All tax deducted from annuities paid should be paid over to the Revenue. The profits of the annuity business should be computed on ordinary Schedule D lines, bring in investment income gross, deducting annuities gross, and excluding management expenses (511).

(iv) Surpluses in an annuity fund should not be permitted to accumulate improperly (512).

(v) The interest content of a lump sum paid out of the annuity fund under an unapproved pension scheme should be taxed (514).

(vi) Cash bonuses on deferred annuity contracts should be taxed (515).

(vii) Any profit arising to an annuity fund from a change in the basis of valuation resulting from the change in the method of computing the profits should be taxed (516).

(viii) The current year's annuity profits, not those of the preceding year, should be deducted from the management expenses of the company (517).

(ix) The interest content of the surrender value of an annuity should be taxed (518).

(x) Existing annuities should be taxed on the new basis in future if the annuitant establishes that his annuity is a purchased annuity (520).

(xi) Life assurance relief for premiums on deferred annuity contracts effected before June 23, 1916, should be withdrawn (521).

## **Explanation of the Report**

THE COMMITTEE'S REPORT MAY BE EXPLAINED under two main heads, one covering the suggested tax treatment of people now outside approved pension schemes (Section II below) and the other covering employees' pension schemes (Section III below). In addition, a small part of the report (see Section IV below) deals with proposed changes in the treatment of annuities purchased by individuals outside of pension schemes and outside the suggested provisions for other pensions. A minority of two members (see Section V below) disagree with the proposals discussed in Section III below.

There is also a chapter on life assurance relief, the conclusions of which are that the

existing relief should be left unchanged, except that it should not apply to premiums which attract relief as expenses under the report, that the one-sixth limit should be modified as noted in Section II below, for temporary life cover, and that the relief now given in respect of premiums on deferred annuity contracts made before June 23, 1916, should be withdrawn.

### **II—People Outside Approved Pension Schemes**

The committee estimates that out of an employed population of 23 million in 1953, 6 million fell in the group of employees,

including whole-time service directors, who had pension rights under an approved scheme. Of the remainder of the working population, the group with which the committee is mainly concerned consisted of (i) the self-employed; (ii) controlling and part-time directors; (iii) employees for whom there exists no approved scheme. Sub-group (i) contains about 2 million people, of whom 400,000 are not liable to tax and are therefore not concerned with a pension scheme.

Sub-groups (i), (ii), and (iii) are recognised by the majority of the committee as being unable, largely because of high rates of tax, to set aside, out of current earnings, sufficient to provide retirement benefits in



line with those open to the group having pension rights under an approved scheme.

The committee states the principles: (a) that if an employee works in a business for substantially the whole of his working life, he should be entitled to spread the reward over his retirement years and after his death for the benefit of his widow and dependent children; (b) the exact method of achieving the spreading is immaterial, provided its extent is reasonable and the method is not open to abuse from a taxation viewpoint; (c) taxation liability on the amounts spread, and on interest on them in the meantime, should be postponed until they reappear as retirement or death benefits; and (d) the employee should still remain entitled to ordinary life assurance relief on any further savings he makes in the form of life or endowment assurance.

The majority of the committee then decide that to groups (i), (ii), and (iii) there should apply the same basic principles as to the group having pension rights under an approved scheme, i.e. that the build-up out of current income should, within stipulated limits, be tax exempt (treated as expenses) but the benefits should, again within stipulated limits, be taxed, but as earned income. The numbers involved are estimated at 1.6 million, mentioned above, in sub-group (i), and 9.5 million in sub-groups (ii) and (iii). Since the extent of the spreading of reward would not be restrained by an employer (see (b) of previous paragraph), the requirement of a reasonable spread should be secured by (a) fixing limits on the proportion of each year's earned income which may be put into a trust fund or an insurance policy to secure a deferred annuity and (b) fixing the dates when the benefits may be drawn.

The limits under (a) are complicated. (1) For what the committee calls annuities of Type A, which allows benefits on death or retirement through disability before the retirement age, the normal limit would be 12 per cent. of a year's earned income. For Type B, a pure deferred annuity only, the corresponding figure would be 10 per cent. To allow for a rough and ready exclusion of income on capital assets from total income (so as to give something that may be taken as approximating to unearned income), it is assumed that only when total income is over £5,000 will assets be of a significant amount, and the permitted percentages should then be, for Type A annuities, 12 per cent. on the first £5,000, 9 per cent. on the next £5,000 and 6 per cent. on the balance; for Type B annuities, the respective percentages are 10, 7½ and 5. If the Inland Revenue were satisfied that the holding of assets were such that it was justified, they could waive the scaling-down of the percentages, and on this there would be a right

of appeal by the taxpayer to the Board of Referees. Earnings would not include remuneration received by a controlling director or from an investment company. And (2), the committee concludes that sub-groups (i), (ii), and (iii) should, in the setting aside of current income for future benefits, be entitled to take some account of past years when they did not put such sums aside, if they are to be brought into alignment with the groups having rights to pensions under approved schemes. Rough justice would be achieved, it states, if the basic 12 per cent. were increased by 0.4 per cent. for each year between April, 1939, and April, 1954, during which the taxpayer was in one of the sub-groups, war service counting as a period in the sub-groups (with proportionate abatement if the basic 10 per cent. applies and with provisions for scaling-down as in (1) in this paragraph).

The limits under (b) are as follows: The trust funds and assurance policies securing the benefits should be arranged for retirement at between 65 and 70 for men, and between 60 and 65 for women. The deferred annuities should not be assignable and, with the exceptions to be noted, should be non-commutable. Conversion of part of the annuity, on death of the taxpayer, into an annuity for widow or dependent children should be permitted, under safeguards. So too, would the return of premiums, with interest, on premature death or retirement through disability. Further (a most important provision) up to one-quarter of the capital value of the benefits should be allowed to be paid as a lump sum tax free, within a maximum of £10,000; if the one-quarter is less than £1,000, the tax-free lump sum could be £1,000; if the total capital value were no more than £1,500, that total could be paid as the tax-free lump sum.

If a lump sum payment were taxable, it would be subject to "top slicing." The tax liability is computed for the year in which the lump sum is received, assuming as the only income a notional pension equal to the pension that could be obtained from the taxable portion of the lump sum. The notional pension is then taken as the top slice of the income and the rate of tax applicable to it is applied to the taxable portion of the lump sum.

The life assurance offices have agreed that they will issue special policies to individuals meeting the requirements of the committee; there will also be group schemes, involving trust funds, for professions. The income arising from the investment of premiums (within the permitted limits) would be tax exempt. Premiums on a policy taken out to provide (additionally) temporary life assurance cover for a lump sum before retirement should attract life assurance relief up to one-

quarter of the permissible percentage of earnings, regardless of whether this raised the total life assurance relief above the present limit of one-sixth of total income.

### III—Employees' Pension Schemes

There are many anomalies in existing approved schemes for employees. Their contributions are sometimes allowed in full against tax (i.e. treated as expenses) but sometimes they attract only life assurance relief. The entire benefit is sometimes taxed, but sometimes it is partially or wholly exempted from tax. Income on investments is taxed in some trust funds, free of tax in others. Large capital sums are payable free of tax as benefits in some schemes, especially so-called "top-hat" schemes, in which, the committee states, the lump sum has been as high as £40,000; in other schemes any lump sum is taxable.

The majority of the committee recommends that in future, the tax treatment of all schemes should conform to the general lines laid down for the self-employed and similar sub-groups as set out in Section II above—the build-up of contributions being free of tax, up to a limit of 15 per cent. of the annual remuneration, and the benefits being taxed as earned income, with the exception (see below) of permitted lump-sum payments. Employers' contributions would be allowed as business expenses, and their contributions to cover back service would be similarly allowed (by spreading). Schemes to be approved by the Inland Revenue would have to abide by certain conditions, of which a major one is that benefits must not be obtainable at the will of the employee, but only in accordance with the (approved) rules of the scheme. The benefit must not be assignable and can be commuted into a lump sum, free of tax, only within the limits set out in Section II above for the self-employed (top slicing applies, as there, to the taxable part of lump sums); it must not exceed a certain proportion of the remuneration of the closing years of service; automatic approval would be given to a scheme if the pension were no more than one-sixth of the average salary of the last three years of service, in respect of each year of service. The existing limit of £2,000 per annum for contributing pensions would be abolished. The investment income of a fund (as in Section II above) would be free of tax.

There are provisions in the report for the transition from the pre-report conditions to the post-Act conditions (assuming an Act is passed). All existing schemes are to be divided into two parts: new entrants could not enter the old part of a scheme and would, therefore, have to accept the post-Act conditions. Old members could either

stay in the old part of the scheme or transfer to the new part as they wished, thus securing the old conditions or the new, whichever were better for them.

#### IV—Individual Annuities

The committee attacks the long-standing anomaly that the whole of the return under a purchased annuity—unless for a term certain—is taxable. It recommends that the capital portion of the return should be tax free. The annuities here in question

are those purchased by individuals, outside a superannuation scheme and outside the suggested provisions for the self-employed and similar groups set out in Section III above.

#### V—The Minority's Alternative for People Outside Approved Schemes

The minority, consisting of Sir John Cater and Mr. George Woodcock, dissents from the recommendations of the majority, which we have set out in Section III above, primarily on the grounds that the self-

employed and similar people usually own capital assets on which untaxed capital appreciation occurs and which can be converted into cash on retirement. They propose instead that premiums paid by subgroups (i), (ii), and (iii) to secure retirement benefits should attract life assurance relief at the increased rate of two-thirds, compared with two-fifths at present. Further, the special tax treatment which employees' superannuation funds now receive should be extended to similar funds set up by professional associations for their members.

## *The Self-Employed—Some Comments*

TO A LARGE SECTION OF THE READERS OF ACCOUNTANCY, the recommendations regarding self-employed persons will be the most interesting. A feature is the last paragraph of the "Reservation regarding Chapters 6 and 7" (which deal with self-employed persons, controlling and other directors and employees having no pension rights (Chapter 6) and employees with existing but inadequate retirement benefits (Chapter 7)), in which having earlier said that self-employed persons are, in the majority of cases, necessarily possessed of capital assets, the minority admit that there is a case for admitting professional associations to run superannuation funds for their members, saying that professions were exempted from Excess Profits Duty and Excess Profits Tax as involving little or no capital.

The problem of the professional man is much more far-reaching; as mentioned by the majority, the estate duty angle must be taken into account at the same time as retirement benefits are being considered. In a professional partnership, for example, the share of an outgoing partner has little or no value to the continuing partners, as the net increase in income would not pay for the capital involved in buying it, yet the estate duty valuation of the goodwill would practically ignore that. As the majority report says, it is now almost impossible to find young incoming partners able to buy shares of goodwill. All this is driving partners into agreements for small annual payments for themselves if they can retire at all, and for their widows. No capital survives to the deceased's estate.

The emphasis of the majority is on life assurance schemes, but allowing the whole of the admissible contribution as an expense. This takes little account of below-average

lives, who, if they were employees under an independent non-assurance superannuation scheme, would not be penalised (at least not to the same extent, depending on the rules). Sufficient emphasis is not given to the history of many a professional man, who worked most of the hours that were for many years to build up a practice, the income from which in postwar years has possibly been almost static owing to increased wages and overheads. His own share may have diminished; if it has not, the increase in the cost of living has often meant lowering his standards of living and eating into any small capital he may have saved. The majority mention that the maintenance of the standard of living may to some extent be requisite for the maintenance of the profession or business. Moreover the professional man often has necessary expenses not allowable for tax purposes.

Admittedly this may be dealing only with a small minority of self-employed persons, but may be readers of this journal.

The report indicates that there are probably less than two million self-employed persons, and of these some 20 per cent. pay no tax. The number of self-employed paying tax seem to be about 10 per cent. of the total tax-paying population, ignoring companies (based on the Inland Revenue Report for the year ended March 31, 1952).

Moreover, by far the majority of the self-employed do not come within the higher ranges of earned income—in 1950-51 of 1,696,800 assessments on individuals and partnerships (the latter counting as one person) nearly 88 per cent. were on earnings of under £1,000 per annum.

The majority point out that the existence of life assurance relief has not stood in the way of granting to the ordinary employee

the additional right of spreading a due proportion of his earnings over his retirement years by means of his employer's, and (where the scheme is contributory) his own, contributions to a pensions scheme. To give self-employed persons—also the others dealt with in Chapters 6 and 7—comparable relief, the life assurance reliefs are much too limited and none operates for sur-tax.

The majority reached the conclusion that the right to spread remuneration over working and retirement days should not be subject to a "means test"; it should be optional to all.

Their recommendations are based (as far as practicable) on the principle of exempting from tax the sums required to build up the retirement benefits and of taxing those benefits when they become payable, subject to some relaxation of the latter requirement. Spreading of earnings must not go beyond a reasonable extent, and the majority proposition is to fix an appropriate percentage of earned income of each year as the amount that can be applied to build up the ultimate benefits. They also determine the age for retirement for the purpose of benefits (whether or not retirement takes place at that age) and prescribe the taxable form of the benefits. Each year's contribution would become a single premium to secure a specified amount of annuity at the specified age. Each scheme, whether for a group or an individual, would require Revenue approval.

The suggestions arbitrarily get over the fact that a self-employed person may have capital assets employed in the business, by an "appropriate" adjustment of the annual percentage contribution, with a discretion to the Revenue to dispense with the adjustment if the capital assets position warrants that course (with a right of appeal



to the Board of Referees). Increased percentages are recommended on a "weight for age" principle for each complete tax year since April 6, 1939. The argument is that the taxation rates prior to that date left room for saving. That argument entirely overlooks the factor mentioned earlier of the man working to build up a practice. Some of us were even "late

starters" owing to having to start late in life as a result of war service in the 1914-18 event! We wonder, too, if those of us who are "bad lives" would be permitted to set aside some income now—say in a specially sponsored company—to buy an annuity at a specified age, or draw it out then by instalments. The saving of income tax, and where relevant sur-tax, now would

be helpful later when our incomes drop very considerably.

There is so much detail in the report that time is needed to study and understand it: we hope to return in subsequent issues to some of the more detailed aspects. If the report is accepted, even partially, the necessary legislation will be voluminous and complicated.

## The Underwriters' Special Reserve Fund

[CONTRIBUTED]

IN ORDER TO RETAIN THE CONFIDENCE of the world—a confidence upon which a large part of British invisible exports depends—Lloyd's must have behind it more than adequate reserves. The maintenance and increase of these reserves falls mainly on the individual underwriter. It has not been easy to sustain the reserves out of profits which since the outbreak of the war have been taxed at very high rates, sometimes at a maximum rate of 19s. 6d. in the £: this fact has been recognised by the Inland Revenue, who, as the outcome of negotiations with the Committee of Lloyd's, have done something to relieve the burden upon the underwriter.

This measure of relief was afforded by the introduction of the Special Reserve Fund. The legislation governing it was first contained in Section 50 and the 10th Schedule to the Finance Act, 1949, and is now re-enacted in Section 480 and the 21st Schedule of the Income Tax Act, 1952; the relief thus granted has been increased by the provisions of Section 67 of the Finance Act, 1952. The arrangements extend to members of Lloyd's or of "any approved association of underwriters," which means, according to Section 480 (2):

an association of underwriters to whom the Assurance Companies Act, 1909, does not apply by virtue of sub-section (2) of Section twenty-eight of that Act.

### The Constitution of the Fund

By paragraphs 4 and 5 of the 21st Schedule, the arrangements for the

Special Reserve Fund must provide for it to be vested in trustees with control over it and power to invest the capital, to vary the investments, and to hold on trust for the underwriter the income arising from the investments. The underwriter who elects to take advantage of the arrangements may do so by giving a notice in writing to that effect, known as a "notice of adherence," and may withdraw from the scheme by giving written notice of withdrawal. But once notice of withdrawal has been given, that underwriter cannot at any future time again give a notice of adherence (paragraphs 1 to 3).

Paragraphs 6 and 7 provide for payments into and out of the Special Reserve Fund. Paragraph 6 permits a payment to the Special Reserve Fund in respect of an underwriting year of a gross amount of up to 25 per cent. of the profit for that year, with a maximum gross payment of £1,500 for any one year. (Both the percentage and the maximum were increased by Section 67 of the Finance Act, 1952, as detailed below.) The transfer to the Special Reserve Fund is to be made within six months of the closing of the accounts of the underwriting year—that is to say, two years after the end of the underwriting year—or such longer time as the Commissioners of Inland Revenue may allow. The time limit has in fact been extended, in each year since the scheme came into force, from June 30 to September 30, and, in most years (including 1953), further extended to October 31. To effect the

transfer a computation of its amount must be submitted to and agreed with the Inspector of Taxes; upon agreement, the Inspector issues form LL.1, certifying the gross and net amounts of the transfer. The amount actually transferred is, of course, the net amount. Where the Name carries on his underwriting through more than one agent, separate Special Reserve Funds can be constituted in respect of each, or only one Special Reserve Fund can be maintained, as the underwriter chooses. But even if the underwriting is carried on through more than one agent, the over-riding maximum to the amount which may be placed to the Special Reserve Fund or Funds in any one year is not increased.

Payments into the Special Reserve Fund may commence with the year of assessment following the year during which the notice of adherence was given, but not including, in the case of a new Name, his first or second year of assessment.

Paragraph 7 provides, in the event of a loss suffered in an underwriting year, for the payment out of the Special Reserve Fund into the premiums trust fund of a sum the gross equivalent of which is equal to the loss.

The term "profit" is defined as meaning the Case I underwriting profit (for periods ending before January 1, 1952, after deducting the profits tax payable) plus the income from the premiums trust fund, any other reserve fund, the Special Reserve Fund itself and the underwriter's Lloyd's deposit; less any shares of profits paid away and



any charges on the income (for instance, commonly interest paid on the capital required to make the Lloyd's deposit). "Loss" is similarly defined.

Finally, by paragraph 8, when the underwriter ceases to carry on business, the accumulated capital of his Special Reserve Fund is paid to him, his assigns or his personal representatives. When the underwriter ceases to carry on his business before his death, the sum paid to him under paragraph 8 is treated as a net sum after the deduction of income tax at the standard rate, and the gross equivalent is regarded for income tax and sur-tax purposes as an annual payment paid to the underwriter on the last day on which he carried on his business (paragraph 9 (3).)

Section 67, Finance Act, 1952, increases the amount which may be put to the Special Reserve Fund from 25 per cent. of the profits, with a maximum of £1,500, to 35 per cent. of the profits, with a maximum of £5,000. Section 67 applies to underwriting years corresponding with the year of assessment 1952-53 and subsequent years, and in this connection it should be observed that there are two distinct methods of assessing underwriters, the "conventional" basis and the "legal" basis. Under the conventional basis the assessment is for the year of assessment following the year during which the underwriting account is closed, whilst under the legal basis the assessment is for the year of assessment following the underwriting year. Thus, the profit of the underwriting year ended December 31, 1950, closed December 31, 1952, would be assessed under the conventional basis for 1953-54 and under the legal basis for 1951-52. All new Names are assessed under the legal basis, but nevertheless the conventional basis will continue to be in operation in respect of the older members for some time to come.

### Consequences of Election

By giving a notice of adherence, an underwriter does three things:

- He creates a Special Reserve Fund, to which he will make contributions.
- He may reduce the amount of sur-tax which would otherwise have been payable by him.
- He renders himself liable to profits tax.

The income tax and sur-tax consequences of election are that the gross equivalent of the amount transferred to the Special Reserve Fund is regarded as an annual payment made by the underwriter, and, consequently, as a deduction from his total income for sur-tax purposes, whilst, if any sum is transferred from the Special Reserve Fund to the premiums trust fund in the event of a loss, the gross equivalent of that sum is regarded as an annual payment received by the underwriter under deduction of tax, and, consequently, as an addition to his total income for sur-tax. The year of assessment in which these "annual payments" are deemed to be made or received is that corresponding with the underwriting year on which they were calculated.

The fact that a payment is made out of the Special Reserve Fund by reason of an underwriting loss does not, of course, debar the underwriter from making a claim under Section 341 of the Income Tax Act, 1952, in respect of that loss, but, in effect, the Section 341 claim is limited to income tax, since, normally, the reduction of total income by the Section 341 claim is counterbalanced by its increase by the "annual payment" deemed to have been received.

A further deduction for sur-tax purposes is the gross equivalent of the profits tax payable for any chargeable accounting period, or part thereof, commencing on or after January 1, 1952. Once again, the deduction is for the year of assessment corresponding with the underwriting year in respect of which the profits tax is payable. Thus, if for the underwriting year 1952 an underwriter, assessed on the legal basis, had a profits tax liability of £110, the deduction from his total income for sur-tax purposes for 1953-54 in respect of this profits tax would be £110 grossed up at the standard rate of income tax for 1953-54, or £200.

### Profits Tax

Election under the 21st Schedule brings the underwriter within the scope of profits tax. But profits tax is a tax designed for, and intended to operate on, limited companies, and if an individual is to be brought within its orbit, certain artificial assumptions must be made, apart from the ordinary adjustments. (One normal adjustment

made is that the Central Guarantee Fund contribution is added back.) Thus, for the purpose of computing the profits tax payable by an underwriter, the interest and dividends on his reserve funds, including the premiums trust fund, the Special Reserve Fund itself, the underwriter's Lloyd's deposit, and any other necessary fund, is treated as the investment income of a company would be, and included in the profits assessable, whilst such part of it as satisfies the ordinary profits tax definition of franked investment income is so regarded. From the total profit thus arrived at is deducted as "remuneration" of the underwriter the greater of £2,500 or 15 per cent. of the profit, with an upper limit of £15,000.

The main difficulty, however, is encountered in discovering the gross relevant distribution, and, consequently, the non-distribution relief. Paragraph 10 (5) (b) defines the gross relevant distribution as being the profit for the chargeable accounting period, computed without abatement and including franked investment income less the gross amount of the transfer to the Special Reserve Fund and less also the amount of profits tax payable for the period. The latter deduction, for chargeable accounting periods ending after December 31, 1951, is the profits tax payable grossed up at the standard rate of income tax in force for the year of assessment within which the end of the chargeable accounting period falls.

It is obvious that the amount of the profits tax payable cannot be determined by ordinary methods until the gross relevant distribution is known, whilst the profits tax payable is itself a factor in ascertaining the gross relevant distribution. Recourse must, therefore, be had to algebra to complete the profits tax computation—a formula can be employed to find the amount of the non-distribution relief. Precise details of this formula vary, of course, according to the rates of income tax and profits tax applicable to the year concerned; for the underwriting year 1952 it may be expressed as follows:

$$5X = A - \left( \frac{A}{B} \times (B - T - C - \frac{3A}{7} - \frac{40X}{21}) \right)$$

where:

X = the non-distribution relief

A = the profit after abatement and

excluding franked investment income

B = the profit before abatement and including franked investment income

T = the gross transfer to the Special Reserve Fund

and C = the central guarantee fund contribution

It should perhaps be explained that 3A

— represents the profits tax at the full

rate grossed up at the standard rate of income tax at December 31, 1952, that is 9s. 6d. in the £. Set out in full it is  $22\frac{1}{2} \times A$

$\frac{40}{100} \times \frac{3A}{21}$  which cancels down to —

Similarly,  $\frac{40X}{21}$  is the non-distribution relief,

reducing the charge to profits tax at the full rate, also grossed up at the standard rate.

Before leaving the subject of profits tax generally, it should be stressed that, even if the underwriter is a member of more than one syndicate, there is not a separate profits tax computation for each, but the results of all of the underwriting accounts carried on by one Name are amalgamated in one profits tax computation, with only one allowance of "remuneration" and abatement. It will, however, have been observed that, unless his underwriting profits plus interest exceed £4,500, by reason of the allowance of "remuneration" and abatement profits tax is not payable by an underwriter who has made an election under the 21st Schedule.

### Example

As an example of a computation under the 21st Schedule, the following figures are assumed for the underwriting year 1952. There is no interest or share of profit paid away, and central guarantee fund contributions have been ignored:

Underwriting Profit £6,000  
Interest on Reserve Funds .. .. £1,000 (including franked investment income £100)  
Lloyd's Deposit Interest .. .. £100

The maximum transfer to the Special Reserve Fund would be 35 per cent. of the total of these figures, that is, £2,485. Assuming that the maximum transfer is

made, the profits tax computation is as follows:

Underwriting profit .. .. .	£	6,000
Interest .. .. .		1,100
		7,100
Less "Remuneration" .. .. .		2,500
		4,600
Less Franked investment income .. .. .		100
		4,500

Abatement	$\frac{12,000 - 4,600}{5} \times \frac{4,500}{4,600}$	1,448
		£3,052

The non-distribution relief, applying the formula, is:

$$5X = A - \left( \frac{A}{B} \times (B - T - \frac{3A}{7} + \frac{40X}{21}) \right)$$

$$= 5X = 3,052 - \left( \frac{3,052}{4,600} \times (4,600 - 2,485 - \frac{3 \times 3,052}{7} + \frac{40X}{21}) \right)$$

$$= 151,270X = 60,775,239$$

Non-distribution relief = £401 16s. approximately.

Proof of non-distribution relief:	£	£
Profit without abatement and including franked investment income .. .. .		4,600
Less Transfer to Special Reserve Fund .. .. .		2,485
Profits tax payable (£284 18s. grossed up at 9s. 6d.) .. .. .		542
		3,027

Gross distribution .. .. . £1,573

Net relevant distribution  $\frac{3,052}{4,600} \times 1,573 = 1,043$

Non-distribution Relief  $3,052 - 1,043 = 2,009$  @ 20% = £401 16s.

Profits tax payable:	£	s.	d.
3,052 at $22\frac{1}{2}$ per cent. .. .. .	686	14	0
Less Non-distribution Relief .. .. .	401	16	0
	£284	18	0

### Advantages of Election

Broadly, the advantages to an underwriter of election under the 21st Schedule are that by making a payment to his Special Reserve Fund the underwriter effects a saving in sur-tax at the expense of a possible liability to profits tax; if the profit as computed for profits tax is under £2,000, the saving in sur-tax is achieved without attracting profits tax. The degree of taxation saving will vary in individual cases, particularly according to the underwriter's total income, for the reduction

in sur-tax will be at the top rates payable by the underwriter. But it can be said that in no case can election operate unfavourably for a sur-tax payer.

To determine the saving resulting from election it is necessary to compare the taxation payable with that which would, but for the election, have been payable. This comparison can be illustrated by utilising the figures of the example set out above, with two further assumptions; that the profits are assessed on the "legal" basis, and that the underwriter's other income for 1953-54 is £4,900:

(a) No election:	£
Income tax (Case I only)	
£6,000 @ 9/- .. .. .	2,700
Sur-tax (on profits only, total income say £12,000)	
£2,000 @ 8/6 .. .. .	£850
2,000 @ 7/6 .. .. .	750
2,000 @ 6/6 .. .. .	650
Profits tax .. .. .	2,250
	£4,950

(b) Election under the 21st Schedule:	£	s.	d.
Income tax (Case I only)			
£6,000 @ 9/- .. .. .	2,700	0	0
Sur-tax (on profits only):			
Total income £12,000			
Less Transfer to Special Reserve Fund £2,485			
Profits tax, £284 18s. grossed up at 9/-		518	
		3,003	
		£8,997	
(6,000 - 3,003 = 2,997)			
997 @ 7/6 .. .. .	373	17	6
2,000 @ 6/6 .. .. .	650	0	0
		1,023	17 6
Profits tax .. .. .		284	18 0
		£4,008	15 6

On these figures, therefore, the amount transferred to the Special Reserve Fund is £2,485 less income tax at 9s., that is £1,366 15s. (which, of course, remains the property of the underwriter), and the resultant taxation saving is £941 4s. 6d. Alternatively, it could be said that the net cost to the underwriter of putting £1,366 15s. to his Special Reserve Fund is reduced by the taxation saving, and amounts to only £425 10s. 6d.

# Taxation Notes

## P.A.Y.E. and Earned Income

Despite the notes which accompany the P.A.Y.E. notice of coding, few taxpayers understand the details on the forms, particularly the restriction of earned income relief (E.I.R.), where that applies. This restriction arises through the E.I.R. being taken into account in the charging of the tax, not as a separate relief. The maximum E.I.R. (£450) for 1953-54 applies to an earned income of £2,025, and the tax tables might give a double allowance for E.I.R. on the amount of the excess of the remuneration over £2,025 or on the total coding allowances, whichever is the less. This is corrected by reducing the coding allowance by an amount, described in the notice of coding as "E.I.R. adjustment," calculated thus, assuming total reliefs to be £400:

(a) If the expected emoluments do not exceed £2,025 + £400, the restriction is 2/9ths of the excess over £2,025; e.g., emoluments £2,300, restriction is 2/9ths of £275 = £61.

(b) If the expected emoluments exceed £2,025 + £400, the restriction is 2/9ths of the total reliefs (£400); e.g., emoluments £3,000, restriction is 2/9ths of £400 = £89.

Naturally, the tables do not allow for E.I.R. on a taxable pay of over £2,025, hence the restriction to the lower of the excess over £2,025 or the amount of the allowances coded into the notice of coding.

The joint earned income of husband and wife attracts only the one maximum E.I.R. and this may give rise to the E.I.R. adjustment.

Care must be taken to check that allowance is made in the adjustment for any E.I.R. already taken into account by reducing the expenses relief by E.I.R. to 7/9ths of the expenses; and where family allowances are deducted less E.I.R. from the reliefs.

## E.P.L. and Capital Allowances

Steps must be taken to recompute the liability where necessary to see

that the right treatment of initial allowances has been applied. It must be remembered that the option was to have initial allowances at 20 per cent. throughout standard periods and chargeable accounting periods, or to have no initial allowances throughout. Inspection is usually sufficient to determine which option is the better; a simple calculation will determine in other cases.

## Income Tax Reserves

Much worry and trouble is caused by the time-lag in taxation. If an individual makes up his business accounts to April 30, the accounts to April 30, 1953, do not form the basis of assessment until 1954-55. The income tax thereon is due in equal instalments on January 1, 1954, and July 1, 1954, and the sur-tax on January 1, 1955. It is therefore more than prudent, it is essential, to provide for the tax by setting aside cash to meet it. Some people do this by opening a separate banking account, others by buying Tax Reserve Certificates. The latter method is undoubtedly the best.

Consider, too, the case of a man who is a partner in a professional practice and also perhaps holds one or two directorships, the emoluments of which are not included in the partnership profits. Income tax is taken care of by the partnership (which should provide for payment as suggested above) and by P.A.Y.E., but the sur-tax liability remains accruing. On an income of £8,000 the sur-tax bill is no less than £1,437 10s.

Every time the individual draws from the firm or receives emoluments he will, if he is wise, set aside an amount towards sur-tax—preferably in Tax Reserve Certificates. If this precaution is not taken, inevitable chaos will result. Consider a short but merry life. A salaried taxpayer, who had never made more than £2,000 a year, suddenly jumped into a happier position and

for the three years 1950-51, 1951-52 and 1952-53 his income was £10,000 a year. Competition then forced him back to £4,000.

Year to April 5	Income	Sur-tax	Due Date
1951	£10,000	£2,187 10 0	January 1, 1952
1952	do.	do.	do. 1953
1953	do.	do.	do. 1954
1954	£4,000	£287 10 0	do. 1955

Only a well-advised and strong-minded man would have been likely, with the sudden influx of prosperity, to set aside the necessary sur-tax as the income accrued. Consider these figures (comparisons with 1949-50 income of £2,000):

Year	Additional income less income tax at standard rate	Amount needed for sur-tax in the year
1950-51	£4,400	Nil
1951-52	£4,200	£2,187 10 0
1952-53	£4,200	£2,187 10 0
1953-54	£2,200	£2,187 10 0

Serious talks with clients on these lines are essential. It is also necessary to see that companies not only reserve for future taxation but keep the funds available. A reserve locked up in stock or debtors is dangerous.

## Estate Duty Anomalies

The University of Cambridge Department of Estate Management has sent to the Economic Secretary of the Treasury a memorandum with the above title. It is based on an inquiry into fifty-seven agricultural estates. The "grand anomaly" of estate duty is that, when imposed on a people so crippled by high taxation that net personal saving is almost if not wholly impossible, it is self-destructive.

The memorandum is concise and in itself a summary not capable of detailed review. It points out, *inter alia*, that:

(1) What is taxed often differs from what is valued, e.g. an estate is taxed, but its components valued.

(2) Costs of sales are not deductible.

(3) The Section 55, 1940 legislation deprives owners of shares in estate companies of the reliefs available, in respect of agricultural land and timber.

(4) The effective rate on timber sold is higher when prices have dropped since the death.

(5) It is often impossible for an executor to pay estate duty on the personalty where much of the estate is agricultural, because he cannot deal with the estate till he has probate, which he cannot obtain without paying the duty on personalty. On a



falling market this is particularly serious.

(6) Partnerships lose the agricultural concession. So do joint tenancies.

(7) Land accepted in payment of duty is not necessarily valued at the probate value.

### Supplying Accounts for E.P.L.

It does not appear to be generally realised that Section 27, Finance Act, 1953, gives a company the right to split accounts for E.P.L. at December 31, 1953, although it did not do so at January 1, 1952. There is, of course, the condition that stock was taken at December 31, 1953.

### Subvention Payments

The agreement between the associated companies need not be under seal: it may be in writing (e.g. by exchange of letters) or even oral. Unless under seal it must have some consideration, however inadequate it appears.

### Simon's Income Tax

Volume five of the second edition of Simon's *Income Tax* contains the table of statutes, table of cases and index. These are very complete and greatly facilitate reference to the subject matter in the main work. It is in loose-leaf form and kept up to date by periodical issues. Our remark on the earlier volumes (ACCOUNTANCY, February, 1953, page 60) that "any office without a copy is unfurnished" applies equally to the fifth volume.

### Income Taxes in the Commonwealth

The second annual supplement, now issued (H.M. Stationery Office, 8s. 6d. net), brings the official publication *Income Taxes in the Commonwealth* up to June 30, 1953, or the earlier date of the end of fiscal year of a territory ended in the year preceding that date, as the case may be. The date for the Union of South Africa is June 30, 1952.

The issue contains the second set of amendments to Part I of the principal volume (which covers the Commonwealth of Australia, Canada, Ceylon, India, New Zealand, Pakistan and the Union of South Africa) and the first amendments to Part II, which was issued in 1953 and covers the Isle of Man, Channel Islands, Southern Rhodesia, Colonies, Protectorates and Trust Territories. The loose leaves are for

fitting into their appropriate places in the first supplement. For those who have to deal with taxes in the Commonwealth, this work is of the greatest value.

### Estate Duty in Northern Ireland

In the Northern Ireland House of Commons the Minister of Finance was asked whether he was prepared to amend the law so as to make estate duty leviable only on the liquid assets of firms and companies and not on the share values or the valuation of the whole concern, thereby encouraging the ploughing back of profits into plant and buildings and safeguarding Northern Ireland's smaller businesses.

In reply, the Minister stated that he was examining the estate duty code and, in particular, the incidence of the duty on smaller businesses in Northern Ireland, and the anomalies said to exist in the duty leviable on such businesses. But the proposal would mean the exemption from duty of the portion of a deceased person's estate represented by or attributable to the fixed assets in private companies or partnerships or individual businesses. He felt that he would be unable to justify such a radical amendment in estate duty law as would have the result that while duty would continue to be imposed on the savings of a professional man, for example, those of a manufacturer able to invest in his own factory would be exempt.

### Extra-Statutory Tax Concessions

An appendix to the 96th Report of the Commissioners of Inland Revenue (which is commented on in a Professional Note on page 85), gives the extra-statutory concessions in operation on December 31, 1952, and additional to those published in previous reports. It is stated that the concessions "are of general application, but it must be borne in mind that in a particular case there may be special circumstances which will require to be taken into account in considering the application of the concession." These are also listed in the appendix concessions which ceased to operate during the year ended December 31, 1952.

With the kind permission of the Controller of H.M. Stationery Office, we reproduce the list:

### INCOME TAX

#### 1. Interest paid in full by a trader to a building society

Where, for the purposes of his trade, profession or vocation, a person pays annual interest in full to a building society which has entered into the special arrangements under Section 445 of the Income Tax Act, 1952, but his income is not sufficient to enable relief to be given under that section in respect of the whole of the interest, the amount in respect of which relief cannot be given is treated for the purpose of carry-forward relief as if it had been assessed under Section 170 of the Income Tax Act, 1952.

### ESTATE DUTY

#### 1. Interest on Estate Duty on the proceeds of sale of timber

Section 9 of the Finance Act, 1912, fixed the rate of interest on estate duty on the proceeds of sale of timber at 3 per cent. In practice interest is charged at 2 per cent, which is the current rate of interest on estate duty generally.

The following extra-statutory concessions have ceased to operate during the year ended December 31, 1952:

### INCOME TAX

#### 9. Stolen machinery or plant: balancing allowances

Paragraph I, Part I, Sixth Schedule, Finance Act, 1952, amends the provisions of the law specifying the events giving rise to balancing allowances and balancing charges. As a result balancing allowances may now be claimed in appropriate cases in respect of the loss of machinery or plant by theft. (This concession was number 9 in the list of concessions published in 1951 in the 93rd report of the Board of Inland Revenue and reproduced in ACCOUNTANCY for February, 1951, pages 61-65.)

#### 31. Building societies

Section 23 of the Finance Act, 1951 (Section 445 of the Income Tax Act, 1952), which came into operation on April 6, 1952, gives legal force to the building society arrangement. (This concession was number 31 in the list published in 1951.)

### PROFITS TAX

#### 1. Directors' remuneration from director-controlled companies

Sub-paragraph (4) of the new paragraph 11, Fourth Schedule, Finance Act, 1952, introduced by Section 34 of the Finance Act, 1952, has taken the place of this concession. (This concession was number 1 in the list published in 1951.)

The Professional Notes pages in this issue include notes on Inland Revenue Statistics; Capital Gains on Take-overs; E.P.T. Refunds; Domicile; Double Taxation Agreement with Western Germany.

# Recent Tax Cases

By W. B. COWCHER, O.B.E., B.LITT.

## SUR-TAX

*Undistributed profits of company controlled by not more than five persons—Liquidation of company—Whether profits of broken period to date of liquidation must be deemed to be available for distribution to members—Finance Act, 1922, Section 21—Finance Act, 1927, Section 31(4)—Finance Act, 1937, Section 14(2) (b).*

**A. & J. Mucklow Ltd. v. C.I.R.** (Ch. November 17, 1953, T.R. 369) was originally noted in our issue of February, 1953, (page 56), but to understand the position it is necessary to recapitulate. The appellant company had been controlled by not more than five persons and was, therefore, within the mischief of Section 21 of the Finance Act, 1922. Incorporated in 1939, it had purchased the business of two brothers who "owned" the company. It had paid no dividend during its existence, and in December, 1943, was put into liquidation. The object of the liquidation was the reconstruction of the business by resale to a new company of the same name. A large sum in cash had been excluded from the sale and passed to the brothers, who used it to finance the new company. The last financial year of the old company was to May, 1943, and a direction had been made under Section 21 in respect of that year and also for the broken period of eight months up to the date of liquidation. The Special Commissioners, in their appellate capacity, had found that it was not unreasonable to refrain from paying a dividend for the last complete year and had discharged that direction. They had, however, confirmed the direction for the last eight months. Finding that it was not part of the object of the reconstruction to avoid sur-tax, they had said that but for the proviso to Section 21(1) and the provisions of Section 31(4) of the Finance Act, 1927, they would have formed the view that it was not unreasonable for the old company to pay no dividend for the final broken period. They held, however, that current and future requirements meant nothing in the case of a company in liquidation and that the case was clearly covered by the decision in *H. Collier & Sons, Ltd. v. C.I.R.* (1933, 11 A.T.C. 417; 18 T.C. 83).

By Section 31(4), the profits of the company for the broken period were to be deemed "available for distribution" and Section 21(1) was to be read as if the words "within a reasonable time" were

omitted. The latter sub-Section is, however, operative only where "a reasonable part of its actual income" has not been distributed by a company. In *Collier's* case a majority of the Courts of Appeal had held that, as a result of Section 31(4), the "reasonable part" limitations in Section 21(1) had been eliminated and direction in the circumstances had become, in effect, automatic. Finlay, J., in the lower Court, and Romer, L.J., in the Court of Appeal, had held, however, that the question remained one of fact; and Harman, J., in the present case, in view of this position and of the later legislation regarding investment companies, had refused to regard the decision in *Collier* as binding on him and had referred the matter back to the Special Commissioners to consider whether as a matter of fact the directors had "acted unreasonably." He held that the proviso to Section 21(1) of the 1922 Act, although requiring them to have regard to two factors, namely, the current requirements of the business and other requirements for maintenance and development, which could not apply to a company winding-up, did not preclude them from taking other factors into account.

On reconsideration of the matter, the Special Commissioners had found that the company had acted unreasonably in refraining from distributing "a reasonable part of its actual income" for the broken period, a finding of fact which, if unchallenged, ended the matter. Counsel for the company contended in a very ingenious argument that the Special Commissioners had misdirected themselves, basing himself on the House of Lords speeches in *Thomas Fattorini (Lancashire) Ltd. v. C.I.R.*, (1942, A.C. 643; 21 A.T.C. 98; 24 T.C. 328). There, it had been held that as Section 21 was penal in character the onus of proof was upon the Revenue to show that the company had acted "unreasonably" in refraining from distributing "a reasonable part" of its profits. As the Special Commissioners had found that the intention to avoid tax had not existed, the case resolved itself into the question whether the directors had acted unreasonably in making one distribution in liquidation instead of first distributing a dividend out of profits and then making another distribution of the balance of net assets. The Special Commissioners had found that it had never occurred to the directors to

consider payment of a dividend for the broken period; and in this the directors would seem to have been eminently reasonable. Harman, J., affirming the Special Commissioners' decision, said that counsel's argument based on the *Fattorini* case would, admittedly, where tax avoidance was not present, make the provisions of Section 31(4) a dead letter, and, but for the authority of *David Carlaw & Sons Ltd. v. C.I.R.* (1926, 9 A.T.C. 240; 11 T.C. 96), he would have found the argument more convincing. The Commissioners had taken everything into consideration and he agreed that it was unreasonable not to have declared some dividend.

The present writer finds this reasoning difficult to follow. In *Carlaw's* case the Special Commissioners and the Court of Session had held that despite the preamble to Section 21 it was unnecessary to find a desire to avoid sur-tax in order to make the Section operative. But *Carlaw* must be read in the light of the later *Fattorini* decision which made it necessary to show that the company had acted unreasonably. In the present case, the Special Commissioners had found definitely that the intention to avoid tax was absent. In consequence, it would seem that the course of events has to be considered as if the sur-tax were non-existent and, on this footing, it is hard to see why the directors, as businessmen, had acted unreasonably in making only one distribution instead of two. At the same time, some findings of fact by Commissioners show officially an enviable degree of faith in human nature, although a judge recently went so far as to call it credulity. It is this feature which bids fair to make Section 31(4) a dead letter.

## ESTATE DUTY

*Aggregation—Policies of assurance purported to be made under the Married Women's Policies of Assurance (Scotland) Act, 1880—Policies for benefit of son, if living, and, if not, for benefit in equal shares of two other children—All failing, the benefit to vest in the last child to die—Policies similar except that if all three children predecease, the policy to be for the benefit of the estate of the last child to die—Married Women's Policies of Assurance (Scotland) Act, 1880, Section 2—Finance Act, 1894, Sections 1 and 4—Finance Act, 1900, Section 18.*

**Walker's Trustees v. Lord Advocate, Haldane's Trustees v. Lord Advocate** (Court of Session (Inner House), October 23, 1953, T.R. 349) was a double case which revealed once more the pitfalls which have to be avoided if the privileged position as to non-aggregation afforded by the Married Women's Property Acts or the Married Women's Policies of Assurance (Scotland) Act, 1880, to certain policies of



assurance effected by the assured is to be secured. In effect, the benefit is restricted to policies which are expressed on the face of them to be for the benefit of the wife and/or children of the assured and to be exclusively so. In the words of Lord Thomson in the present case:

It becomes then a matter of the construction of the policies whether the benefit to the children necessarily persists throughout the whole lifetime of the assured. If there may come a time when no child is benefited, the protection flies off and the assured or his creditors are no longer excluded.

All the policies in question had been purported to be effected under the Scottish Act. There were nine of them and they fell into two categories. There were four *Haldane* and five *Walker* policies. In each case the testator had three children. In three of the *Haldane* policies the provision was for a nominated child if he should survive his father and if not for the two other children equally. If all three predeceased their father, the whole benefit was to vest in the last of the three children to die. In the fourth *Haldane* policy and in all five *Walker* policies there were similar provisions, but with, as it proved, the vital exception that if all three children predeceased their father then the whole benefit was for the estate of the last to die.

The Crown claimed that in all nine cases the policy monies fell to be aggregated with the testator's other property, the exemption

afforded by Section 4 of the Finance Act, 1894, where "the deceased never had an interest," not applying. As regards the three *Haldane* policies it was suggested that in the event of the three children predeceasing their father and the last to die being an intestate the father would come in and he, therefore, had an interest. All the judges rejected this contention, Lord Patrick pointing out that the vesting in the last child to die was descriptive of the event but not a condition limiting the benefit:

That condition is satisfied as soon as a child becomes the last of the children to survive and his opinion that the gift would then vest absolutely in him or her was shared by Lord Mackintosh.

As regards one *Haldane* policy and the five *Walker* policies, the Court by a majority, Lord Mackay dissenting, held that the ultimate provision for the benefit of the estate of the last child to die—"a most unusual, perhaps an unprecedented, form of gift" according to Lord Patrick—was fatal to the exemption because in the event of the last surviving child dying intestate the statutory trust and the protection afforded under the 1880 Act would fail for want of continuing objects. The assured would then be free to resettle the policies as he wished. Lord Patrick pointed out that the difference between the two types of policy was one of substance and that, if after the death of the last child intestate

the assured had become bankrupt, in the three *Haldane* cases the policy would not pass to the assured's trustee whilst in the *Walker* cases and the fourth *Haldane* case it would.

The policies in question in the case had all been issued by major assurance companies, and seeing that such policies are normally drafted or settled by experts it is probable that many assured are living in a fool's paradise. The present position is unsatisfactory; and it would seem to be worth consideration whether there should not be published a series of statutory forms to which, in default of alterations in the law, no exception would be taken.

*Valuation of minority holding of shares in private company—Restrictions on transfer—Finance Act, 1894, Sections 2(1)(c), 7(5), 10.*

**In Re Holt** (Ch. November 25, 1953, T.R. 373), was the subject of a special article in our January issue (pages 11-13) and concerned the value to be placed upon a minority holding of ordinary shares in a private company, which had been included in a settlement made in 1947 by a testator who had died in 1948. The case illustrates the truth that valuation is a matter not of fact but of (not entirely disinterested) opinion and that there is still ample scope for the "expert" who claimed that "he could vally high or vally low or vally for probate."

## Tax Cases—Advance Notes

By H. MAJOR ALLEN

### HOUSE OF LORDS

**C.I.R. v. Wilson's (Dunblane) Ltd.**  
January 26, 1954.

The facts in this case, and the decision of the Court of Session, were reported in *ACCOUNTANCY* for November, 1952, at page 374.

The House of Lords unanimously dismissed the Crown's appeal, holding that the provisions of Section 59, Income Tax Act, 1945 (now Schedule 14, Income Tax Act, 1952) had no application where plant was sold at its market price.

### PRIVY COUNCIL (JUDICIAL COMMITTEE)

**Commissioner of Taxation of Australia v. Squatting Investment Co. Ltd.**  
January 21, 1954.

**Facts.**—The respondents were wool growers. Under wartime legislation the

Commonwealth Government compulsorily acquired all wool grown by them during the years 1939-1946, paying compensation therefor. By arrangement between the two Governments, the United Kingdom purchased the whole of the Australian wool clip (less that required for use in Australia), one term of the arrangement being that the two Governments should share equally any profit arising out of the resale of wool outside the United Kingdom.

On the resale of surplus wool after the war, large profits accrued from sales outside the United Kingdom, and to make provision for the disposal of its share thereof, the Commonwealth Government in 1948 passed an Act under which, in effect, the profits were divided among wool growers in proportion to the total value of the wool they had supplied during the war years.

The respondents received a payment

under the Act in 1949 (when they were still carrying on business) and were assessed to tax upon the footing that the payment was a trading receipt. The High Court of Australia allowed their appeal against the assessment on the ground (substantially) that the payment was a gift.

**Decision.**—Held, allowing the Commissioner's appeal, that the payment was a trade receipt.

### ESTATE DUTY

#### HOUSE OF LORDS

**Sneddon and others v. Lord Advocate.**  
January 26, 1954.

The decision of the Court of Session was reported (*sub. nom. Hetherington's Trustees*) in *ACCOUNTANCY* for January, 1953, at page 23.

The House of Lords (Lord Keith dissenting) allowed the trustees' appeal, and held that the property deemed (under Section 2 (1) (c) F.A. 1894) to pass on the death of the donor was that which passed from him to the trustees by virtue of his gift—i.e. £5,000, not the trust fund as it existed at the date of death.

*In re Payne* (1940, 1 Ch. 576) overruled.



# The Student's Tax Columns

## DEDUCTION AT SOURCE—I

### Schedule A

AT THIS TIME OF THE YEAR, IT IS WELL TO REMEMBER THE position regarding deduction of tax charged under Schedule A. Except in certain cases such as flats, weekly property, etc., the occupier is charged with the tax under Schedule A at the standard rate on the net annual value (N.A.V.). If the occupier is the owner, and has allowances or reliefs (e.g. for maintenance) available, he may be given those allowances etc. against the N.A.V. Where he pays rent, however, he is entitled to deduct tax when paying the rent. Should he hold under a long lease (i.e., one granted for a term exceeding 50 years other than one for a term determinable after the death or marriage of any person), the rent is an annual payment subject to Sections 169 and 170, just like a patent royalty or mortgage interest (see below).

Under a short lease (which is any lease other than a long one), the occupier, on production of the receipt for the tax, may deduct from the next payment of rent the tax he has paid on the N.A.V., so long as it does not exceed the standard rate of tax on the rent (as reduced by any deductions allowed by the Commissioners such as owners' rates in Scotland).

As the standard rate on the year's rent or on the N.A.V. may exceed the next payment due for rent, the amount deductible from the landlord in excess of the next amount of rent due can be deferred until on or before April 1 in the year of assessment to permit its deduction from the rent due thereafter.

#### Illustrations

(1) N.A.V. £100, rent £112, payable quarterly.

Tax due January 1, 1954, £100 at 9/- =	£45
(All deductible from landlord)	
Quarter's rent	28
Excess	£17

The occupier may pay £28 tax on January 1, 1954 and produce the receipt in discharge of the next payment of rent, and pay £17 tax by April 1, 1954, leaving £11 only to pay to the landlord for the quarter.

(2) N.A.V. £120, rent £100 payable quarterly.

Tax due January 1, 1954, £120 at 9/- =	£54
Tax deductible from landlord	
£100 at 9/-	£45
Quarter's rent	25
Excess	£20

The occupier must pay tax of £54 — £20 = £34 on January 1, 1954 and £20 on April 1, 1954. The January payment includes:

Amount equal to quarter's rent	£25
Tax on beneficial occupation	
£20 at 9/-	9
	£34

The beneficial occupation, i.e. the excess of the N.A.V. over the rent, is part of the occupier's income for all income tax purposes, since he enjoys that value of property rent free.

### Ground Rents, Etc.

Any annual payment (unless there is a special arrangement as with the building societies) is taxed by deduction at the standard rate. So long as the payer has an income at least equal to the amount of the annual payment, the deduction is under Section 169 and he keeps the tax, but an equal amount of his income must bear tax at the standard rate.

Illustrations: Ground rent and other annual payments £90.

	A	B
Gross total income, unearned	£900	£900
Earned income relief (E.I.R.) nil		3/4 × (£900—90) = £180
Personal	£210	210
Children (2)	170	170
	£520	£340

	£	s.	d.		£	s.	d.
Tax payable	£90 at 9/- =	40	10	0	90 at 9/- =	40	10
	100 at 2/6 =	12	10	0	100 at 2/6 =	12	10
	150 at 5/- =	37	10	0	150 at 5/- =	37	10
	150 at 7/- =	52	10	0			
	30 at 9/- =	13	10	0			
		£156	10	0		£90	10

The restriction of B's earned income and reduced rate reliefs must be noted; he cannot get reliefs on income needed to pay annual charges. Had he had £90 or more unearned income, he would have had his full E.I.R. on earned income.

	C	D
Gross income	£200	£50
Part personal reliefs	110	—
Income chargeable	£90	£50

The above incomes would each attract tax at the standard rate, since there must be kept in charge at that rate the tax deducted from annual payments out of the income. In addition, D would have to pay to the Revenue, under Section 170, tax at 9/- in the £ on £40, to account for the balance of tax deducted when he pays the annual payment.

(To be concluded)

[Students are invited to suggest topics on which they would like tax articles.—  
Editor, ACCOUNTANCY.]

## The Month in the City

### Still Higher Values

AFTER THE VERY MINOR RECESSION OF January, fixed interest values recovered early last month to the level ruling just before Christmas. The recovery was due in part to the "success" of the War bond conversion offer and to the general atmosphere of optimism, which included a belief in the early reduction in Bank Rate. More remarkable was the continued rise in industrial Ordinary shares in the early part of the month. On the last day of the old account, February 9, the *Financial Times* index was within half a point of the postwar record of 140.6 reached under the régime of Daltonian inflation. A few days before it had been confidently forecast that the opening of the new account would see the peak passed and that the way would then be open for a further material advance postulated by the Dow-Jones theory. But it soon became apparent that, while those who wished to buy for new time as short-term speculations had taken advantage of the ability to do so during the last four business days of the old account, some of the would-be sellers had deferred action until the expected rush of orders had put prices still further. The result was a fall of a point a day for the next three days in equities but a continued rise in fixed interest securities, buyers of which were, quite properly, not unduly depressed by the failure of the Bank to change its rate. After some further fluctuations the indices of the *Financial Times* show the following changes between January 21 and February 22: Government securities up from 100.12 to 100.32; fixed interest from 111.91 to 112.33; industrial Ordinary from 133.0 to 136.5, after touching 140.2, and gold mines from 91.48 to 91.64.

### Grounds for Optimism

It is easy enough to find reasons why those who are naturally inclined to look on the rosy side of things should suppose that all is well just now. As to the immediate position, while the process of raising dividend distributions is continuing, they are now more usually backed by figures showing the commencement of the recovery which may now be about to end. There is also the fact that the authorities have been able to push up, if by very little, the level of gilt-edged securities. Rather less immediate is the

effect of Mr. Butler's statements on the effects of the Sydney conference and the views formed there about the extent of the American recession, which some people now believe to be passing. Moreover, many people have convinced themselves that rises of five to seven per cent. in wage rates will have no effect on our power to export—or, it would seem, on the margin of profit to be derived from exports. Further, the weekly revenue returns are making a very good showing and everybody seems to be agreed that Government policy will be towards greater ease rather than the reverse. It is true that the decision to make no further cut in purchase tax either before or in the Budget caused some doubts, but before long the view was being canvassed that the refusal of the Chancellor to reduce the rates of tax was a guarantee that he had other and better means of giving relief to the mass of taxpayers. However, when every allowance has been made for the possibility that the good luck which has hitherto attended Mr. Butler may persist, it seems rather doubtful whether conditions are at present so sound that a continued rise in equities could be justified except on the basis of a substantial dose of inflation.

### Conversion Results

The offer, maturing on March 1, to holders of £412 million of National War Bonds 1952-54, to convert into an equal amount of 3½ per cent. Conversion stock 1969 at 99 has met with a reception which is generally considered as a success. Some 82½ per cent. of the Bonds are to be converted, leaving £72 million to be dealt with in cash. Much more than this had been raised by previous operations and the effect had been to raise gilt-edged prices a further trifle. In this sense the success is undoubted: what remains uncertain is how much this and previous operations owe to the activities of the Departments and how far longer dated stock, taken by them, can and will be unloaded on the ordinary investing public. This particular aspect cannot be disentangled from general financial policy but it does at least seem that a not inconsiderable proportion of the Bonds outside the official holdings were in fact converted and if that is so there is already some element of funding in the operation.

After what seems to many a long interval, the Commonwealth Development Finance Corporation has announced its first investment. It is understood that this is the first transaction to be completed, despite reports to the contrary, but there are two or three others in an advanced stage. There is, of course, little reason for surprise that lending should have been deferred for a year, for the Corporation had to find a new niche and schemes had to be prepared. The transaction provides about one quarter of the equity capital of the *Sui Gas Transmission Company* which is to transmit and distribute gas from south-eastern Baluchistan to the Karachi area. The rest of the equity capital will be provided, it is hoped in equal proportions, by private investors in Pakistan, the *Pakistan Industrial Development Corporation* and the *Burmah Oil Company*, the last being responsible for the management of the gas company. The whole operation appears to be dependent upon the provision of some £5 million of loan capital by the *International Bank*. The whole operation represents a combination of local and international finance and expert direction which is calculated to offer the best hopes of success.

### Steel Company Results

While the output of steel, and still more of pig iron, continues to mount, some of the results of steel companies for the year to September last now appearing are distinctly discouraging, at least on a short run view, and they will certainly do nothing to facilitate the task of selling steel shares to the public. The first of these results to appear recently is that of *John Summers*. There the fall in profits is mainly a reflection of the disturbances caused by bringing in new and much extended works. The plant is now fully integrated and there would appear to be every reason for supposing that it will be fully competitive, the more so since the very expensive continuous strip mill was put in before the war at prewar prices. The other group to publish its results, *Richard Thomas and Baldwins* and the *Steel Company of Wales*, owes its setback to different causes. Here both the export demand for and the price of tin plate and some similar products, have fallen. It will be recalled that a number of the old hand mills were closed—some only temporarily but others permanently. The trade is now recovering, but the trend in overseas prices is towards lower levels for at least some products. It is a pity that the preliminary statements were not accompanied by a full explanation of the fall in profits: this explanation is awaited with much interest.

# Points From Published Accounts

## Arthur Lee

*Arthur Lee and Sons* deserves a pat on the back for showing a consolidated net profit for the year which is arrived at before crediting a tax overprovision and a transfer from tax reserve, and before debiting a loss on the sale of steel compensation stock. A minor improvement would have been to lump into three sums the dividends paid and proposed on the different classes of share capital.

## Clouded by Expansion

The report of *Associated Motor Cycles* states that proper comparisons with the previous year's results are made void by the introduction of the new subsidiary for part of the year only. This happens frequently, but is there any reason why it should? Is it beyond the power of accountants to present a simple statement for shareholders showing what the net profits available for appro-

priation would have been without including the results of new subsidiaries? Perhaps there is a certain coyness in letting shareholders know the potential return on the new investment; perhaps it is essential that the profit-earning capacity of new subsidiaries should not be revealed to competitors. A similar criticism applies to *J. W. Green*, the Luton brewery undertaking which has been one of the leaders in post-war expansion. It can, of course, be contended that the benefits of mergers do not occur overnight and that it could be hopelessly misleading to shareholders, and unnecessarily derogatory to directors, to give full details of the assets and earnings of an acquired business along with the cost price.

Another point arising out of the *Associated Motor Cycles* accounts concerns the priority of employees' bonuses. In the present instance the bonus is shown as an appropriation senior to the dividends, or at least *pari passu* with them. Is this, in fact, true, or

is the rate of bonus linked to the dividend rate? We are not deliberately singling the company out for criticism, for it can point to many others that adopt similar accounting methods. But it would seem to be desirable to let shareholders know which comes first—the dividend or the employees' bonus—as a charge on net profits.

## Trading Profit After Charging . . .

For the sake of simplicity *Associated British Malsters* starts its profit and loss account by showing a trading profit of the group after charging eight items which are tabulated underneath. If these items had been sub-totalled it would have been easier for shareholders to calculate the trend of the prime trading profit. Included in these items is an additional provision for deferred repairs, and a provision for the cost of collection of foreign debts. Judging by the chairman's speech the latter may be entirely non-recurring, and if this is so it would have been preferable to show it as a "below-the-line" deduction. With this exception the accounts are clearly laid out, and shareholders can see at a glance the cover for their dividend.

# Readers' Points and Queries

## Clergymen

*Reader's Query.*—I was interested to read the paragraph on clergymen under Taxation Notes in your January issue (page 24), as this brings to mind a case where the Inspector has refused to allow car expenses and I shall be glad of your views.

The clergyman concerned is a principal of a theological college and his claims for car expenses in respect of preaching engagements, even though such engagements meant publicity for the college, were disallowed on the Inspector's contention that the only expenses allowable are those wholly, necessarily and exclusively incurred in the performance of the duties for which the taxpayer receives remuneration. In this instance no preaching fees were received.

Likewise, car expenses in connection with the gentleman's appointment as Honorary Chaplain to the Bishop of the diocese were disallowed on the contention that this appointment was not in connection with his duty as principal of the college.

*Reply.*—On the facts stated it appears that there is no means of combating the Inspector's contentions. The fact that the principal of a theological college is and would naturally be a clergyman does not alter the nature of his post.

*It is difficult to imagine that preaching engagements are part of his duties as a principal of the college. He is very much in the same position as the well-known case of Ricketts v. Colquhoun (10 T.C. 131). In that case Lord Blanesburgh said that the expenses were restricted to "those which each and every occupant of the particular office is necessarily obliged to incur in the performance of his duties—to expenses imposed on each holder ex necessitate of his office and to such expenses only." It seems that the expenses in connection with the appointment as honorary chaplain to the Bishop of the diocese are likewise not connected with the post as principal.*

## Estate Duty—Son's Partnership

*Reader's Query.*—The owner of a business proposes to admit his son into partnership, father and son to share equally or in proportion to the amount of the capital account balance of each as shown by the accounts for each financial year. The capital of the business is £22,000, i.e. the assets exceed the liabilities by £22,000, excluding goodwill. The son proposes to pay the father £11,000 only as it is considered that the son's work in the business for the last fifteen years is responsible for half of the goodwill. If the son covenanted to devote

the whole of his time to the business, not to enter into competition, and to undertake a greater share of responsibility owing to advancing age of the father, on what basis would estate duty be levied if the father died within five years?

*Reply.*—A partnership between father and son is always the subject of scrutiny. "Morally the son may have earned his partnership by previous service, but prima facie a past consideration cannot be taken into account" (*Green's Death Duties*, 3rd edition, page 163). In the present case, there can be no element of gift other than goodwill, and in our view, if the partnership agreement be properly drawn, it would show that there was no gift in that respect either.

The agreement should state that the son had worked in the business so long and his influence was such that if he set up business on his own account it was feared that many customers would follow him, and that in consideration of his agreeing to become a partner and to undertake greater responsibility, etc., and of the payment to his father of the sum of £11,000 for a half-share in the capital and profits of the business, he was admitted to partnership. The solicitor who drafted the agreement would be able to advise on the wording.

In those circumstances, we should not expect there to be any risk of any gift attracting estate duty, and if the father died, even within five years, there would be liable only the half share of the partnership net assets including goodwill as valued on the date of his death.



# Publications

**FARMING RECORDS AND ACCOUNTS.** By James Wyllie. (The Wye College Series No. 1). (Butterworth's Scientific Publications, London. Price 30s. net.)

This is an interesting treatise dealing with farmers' financial records. The first part explains the normal financial accounts which are prepared primarily for income tax purposes. Most practitioners dealing with farmers are content to stop there; in fact many farmers do not bother about the results shown in the accounts, other than to ask "How much tax have I got to pay?" It is necessary, therefore, to arouse their interest so that they may want to know more about their results, that is, which crops did well and which did not. The author details the records necessary for this purpose. He is eminently practical and realises that farmers have neither the time nor the inclination to do much clerical work. He explains the method of allocating against individual crops the expenses such as wages, tractor time, home-grown fodder or seeds, farmyard manure. There is a detailed examination of the question whether home-grown produce should be charged at cost or market value.

Management accounting is very much to the fore in the accountancy profession today and this book applies it to the farm, where there are so many imponderables, such as weather, class of land, fertility of the soil, and so on. In industry a given set of facts will produce a particular answer, but on a farm the conclusion may be quite different from that envisaged, through a variety of causes, some of which are mentioned above. These produce in many farmers a resistance to any form of cost accounting. As the author points out, many farmers would say that they grow as big crops as they know how and in any case that the size of these crops depends more upon the weather than on anything they can do. This attitude of mind is faced throughout the book. The fact must be faced that many older farmers have neither the ability nor the desire to keep these records, but it is essential that the younger generation should be trained to better things.

There is a chapter on budgeting in which the author points out pitfalls to trap the unwary planner. Useful practical examples are included.

Two minor criticisms: Firstly, it would seem unnecessary to collect debts owing to or by the farm into one account called debts receivable or debts payable: it is simpler to bring down the balances on the various nominal accounts. Secondly, a

book published in 1953 really should not refer to super tax (page 76), which was abolished in 1928.

We heartily commend the book to accountants who practise among farmers, to the more progressive farmers and to farm students.

N. B. H.

**COVENANTS, SETTLEMENTS AND TAXATION.** By G. Boughen Graham, LL.B., Barrister-at-Law. (Solicitors' Law Stationery Society, Ltd., London. Price 10s. net.)

This booklet is one of the series of "Oyez Practice Notes" and is designed primarily for the use of the legal profession. However, it approaches the subject solely from the taxation angle and any accountant in frequent contact with the complexities of the legislation concerning settlements will find it extremely helpful.

Its value is increased in that the author has not confined himself to problems arising from the income tax and sur-tax legislation—now conveniently grouped in Part XVIII of the Income Tax Act, 1952—but has kept in the foreground the question of estate duty, stressing the necessity of avoiding a course of action which achieves its object so far as income taxation is concerned regardless of the equally important (and in fact sometimes more important) aspects of death duties.

Part one of the book (the whole of which extends only to 70 pages) is devoted to an explanation of the law, the reader being taken Section by Section through the provisions of Part XVIII, ending with an explanation of the estate duty position. Reference is made to the more important case law so far as it has a bearing on the general principles. The second part of the book deals with the problem of applying the law, firstly in relation to income settlements, dealing respectively with settlements on adults, infant beneficiaries and charities, and secondly in relation to capital settlements, both personal and charitable. There is an appendix setting out twelve typical forms of deed and covering most of the likely intentions of any would-be settlor. Although the accountant will probably regard this side of the matter as outside his province, the importance of being able to appreciate and sometimes to criticise the legal verbiage goes without saying, and a study of these precedents will be valuable to many outside the legal profession.

One may perhaps add two minor criticisms. The book contains no index (perhaps

not very necessary in view of its size and a fairly detailed statement of contents) and to the accountant its value would have been enhanced by some reference to stamp duties as affecting its subject matter. But its clear and logical interpretation of a very difficult subject should ensure that it is an early addition to the accountant's bookshelf.

J. R. P.

**THE HISTORY OF THE HALL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES.** By John H. Stern, M.A. (Gee and Co. (Publishers) Ltd., London. Price 15s. net.)

Notwithstanding current criticism of specialisation at the expense of culture, professional bodies may modestly claim interest in the arts, to which they have given considerable patronage. Certainly this is true of the accountancy profession and is particularly exemplified in the fine building of the Institute of Chartered Accountants in England and Wales, situated in the quietness of Moorgate Place in the City of London.

The recent work of Mr. John H. Stern, M.A., describing the history, architecture and embellishment of the Institute's Hall, should be widely welcomed. Commendably, Mr. Stern has made research among 44 works, included in a bibliography, some 16 maps and 13 architect's drawings, as well as having had recourse to the published records of the Institute.

Eighty (odd) pages of text, divided logically into five chapters, cover the origins, from Roman times, of the site on the banks of the Wallbrook, the historical development of the building (1888 to 1953), its architectural and artistic features and contents, with short biographies of the eminent architects and artists commissioned for the respective works; and finally there is a short account of the unique collection of early works on accounting in the library.

The description of the architecture and works of art calls for careful reading against the drawings reproduced and illustrations: in fact, to obtain a full appreciation of the book a visit to the building is desirable, although the contents form a narrative and record, and the work is not in any sense a guide book.

Some eight years after the original Royal Charter, the Council of the Institute considered the erection of a building, not without some critical "voices in the wilderness." Even the President, in commending the proposal, admitted some previous doubt; and a member at the subsequent general meeting convened to consider the proposal said "We seldom require a large hall." Our Council meetings will become in all probability more and more perfunctory! However, the members

approved and a lease of the site was obtained: subsequently, for the purpose of widening the thoroughfare, a portion of the site was leased to those now departed but useful functionaries, gracelessly known as the Commissioners of Sewers. Competitive designs were invited from six architects, that of John Belcher, F.R.I.B.A. (afterwards R.A.) being chosen by the Council, on the advice of the assessor Alfred Waterhouse, R.A.

Fortunately the period of the Gothic revival in architecture was coming to an end, and Belcher adopted for the building the Italian Renaissance style.

There were enlisted, either at that time or later, the services of sculptors (notably Harry Bates, A.R.A.), artists (including distinguished portrait painters), and an artist in glass, all of whose decorative work added to the dignity and utility created by Belcher. A notable feature is the frieze, which runs along the front and side elevations, executed by Sir Hamo Thornycroft, R.A., and a portion later (1931) by J. A. Stevenson.

After some difficulties, due to an unavoidable change of contractors, the Hall was formally declared open on May 10, 1893, amid appropriate celebrations.

A jump to the period about 1930 brings this review to the extension erected in Great Swan Alley (at right angles to Moorgate Place) to the plans of J. J. Joass, F.R.I.B.A., who had been a pupil of Belcher and whose style he followed.

In Chapter III, Mr. Stern makes a pleasing reference to the affection of Hon. George Colville (Secretary 1899-1935) for the building to which he brought taste and skill; he was himself a considerable amateur craftsman in wood.

Happily the building was spared major damage in the 1939-45 war, and, on the invitation of the Institute, became the focal point of many conferences relating to the war effort of the accountancy profession, whether in H.M. Services or in civil occupations.

The additions and extensions described involved much administrative work and co-ordination of efforts. This review would be incomplete without a reference to the work of Mr. R. Wynne Bankes, C.B.E. (Secretary 1935-1949), who was concerned with the Swan Alley extension and with the care of the building during the vicissitudes of 1939-1945, when, by offering facilities, the Council and he helped friends who were in trouble with war damage. To Mr. Alan MacIver, the present Secretary, has fallen responsibility for rehabilitation and more recent internal alterations and improvements, and the enjoyment under more favourable conditions of the facilities of Moorgate Place.

The Hall of the Institute prompts the recollection of many distinguished occasions

of hospitality by successive Presidents, to whom the building itself must be one of the pleasures of office.

A. A. G.

INTERNAL AUDITING. By W. W. Bigg, F.C.A., F.S.A.A. and J. O. Davies, F.C.A., A.C.W.A. (H.F.L. (Publishers) Ltd., London. Price 18s. net.)

The rapid development of large-scale industrial organisations during the last thirty years has necessitated the formation of instruments of control to assist management. One of these instruments is an internal audit service, which is increasingly recognised to be an essential part of the financial and administrative organisation. Since growing importance is being placed on internal auditing, it is surprising to find that few text-books on the subject have been published in this country. The deficiency has now been made good, for within the last few months two books have appeared under this title, and the book now under review, although the second of the two to be published, is nevertheless welcome.

The authors have covered their subject bearing in mind that internal auditing is a specialist branch of accounting, with its roots in that profession but reaching out towards management. It is pointed out, for example, that whilst the work of an internal auditor is similar to that of an external auditor, the former, in his function as an aid to management, examines records and documents which the external auditor is not normally required to review and must have an even more detailed knowledge of all aspects of the operations of the organisation. The wisdom and, indeed, the correctness of this approach to the subject may be questioned, for whilst internal auditing should and must assist management as an "instrument of control" the proper concepts of auditing must always be borne in mind.

Internal check is of vital importance to the internal auditor and the authors have quite rightly recognised this by discussing fully its implications and its application to various accounting aspects. In the chapter on audit programmes the novel suggestion is put forward that in a well established organisation, with adequate systems of internal check, the most effective auditing is obtained by apportioning audit time approximately as to two-thirds over the programme and one-third to those accounting features which appear to the auditor to merit special audit attention.

The authors then deal with the audit of cash transactions; the impersonal ledger; payments; the verification of fixed assets and the audit of current assets. It is significant that the references in these chapters are often to the "auditor" and not specifi-

cally to the "internal auditor," some eighty pages being taken up with matter such as is to be found within the covers of a book on auditing generally. Indeed, large portions from a work on auditing written by one of the present authors have been reproduced within these pages, although this may have been done for the sake of completeness.

The chapter on internal audit techniques which follows could usefully have included, under the heading of sampling techniques, a selection of sampling methods employed. When dealing with reports prepared by the internal audit staff after visits to an accounting unit, it is stated that in general the report should be sent to the level of management next above that of the person in charge of the unit which has been under audit examination. This is open to question. Should not such a report necessarily be made to his superior in the internal audit department, any matters arising out of the report which it is necessary to bring to the attention of the department under audit being the subject of a separate communication?

The book concludes by giving a number of examples of the many ways in which the internal auditor can serve the management by safeguarding the funds, earning power and goodwill of the organisation. Although many of the suggestions are already carried out as part of the normal duties of an internal audit department, the extension of the service to labour relations and staffing matters—to quote two of the examples given—may, as yet, give rise to severe criticism.

Here, then, is a welcome addition to the bookshelves not only of the internal auditor, but also of the accountant in industry and practice, whilst for the accountancy student it contains a wealth of thought and the result of much practical experience.

A. M. D.

## BOOKS RECEIVED

SOUTH AFRICAN COMPANY SECRETARIAL PRACTICE. By J. J. Cloete, A.C.I.S., A.C.C.A., CERT.A.I.B. and Oscar Britzius, B.A., F.C.I.S. (Juta & Co., Ltd., P.O. Box 30, Cape Town. Price 42s. net.)

BUCKINGHAMSHIRE COUNTY COUNCIL. Accounts for the year ended March 31, 1953. (County Treasurer, County Offices, Aylesbury).

WHILLANS'S TAX TABLES AND TAX RECKONER 1953-54. By George Whillans, F.I.B., F.T.I.L. (Butterworth & Co. (Publishers), Ltd. Price 5s. net.)



## Legal Notes

### *Contract and Tort—motor vehicle insurance.*

In some insurance policies for motor vehicles there is to be found a clause excluding the insurer's liability if "the vehicle is conveying any load in excess of that for which it was constructed."

**In Houghton v. Trafalgar Insurance Co. Ltd.** (1953, 3 W.L.R. 985) a car was insured under a policy containing this clause, and the car was damaged in an accident at a time when there were six persons in the car although there were only seats for five. The insurance company claimed that in these circumstances they were relieved of liability by the exclusion clause, but the Court of Appeal rejected this contention. They said that to be effective an exclusion clause of this kind must be clear and unambiguous, but applied to a private car it was neither clear nor unambiguous: it could only cover cases where there was a weight-load specified in respect of a lorry or van.

### *Company Law—Coal Nationalisation.*

It is regrettable that the compensation due to colliery companies under the Coal Industry Nationalisation Act, 1946, has still not been settled, and the latest case to come before the Courts on this point is **In Re Old Silkstone Collieries Ltd.** (1954, 2 W.L.R. 77). By Section 25 of the Act provision was made for adjusting the rights of classes of shareholders. By the articles of association of this company the Preference shareholders had a right to be repaid their capital at par prior to any repayment to the Ordinary shareholders, but they had no further rights, and by another article the special rights attaching to any class could only be abrogated or modified by a resolution passed at a meeting of shareholders of that class.

In 1950 and 1951 the Preference shareholders agreed to a partial repayment on the footing that this repayment was without prejudice to their rights of applying for an adjustment under Section 25, and the Court approved of these reductions of capital. In 1953 the directors after taking advice formed the view that the rights of the Preference shareholders under Section 25 were worthless and the company passed a resolution that the capital should be reduced by paying off the Preference shareholders

at par. When the company applied to the Court for sanction of this arrangement, certain Preference shareholders objected. Their first ground was that the conditions on which the former repayments had been made had given the Preference shareholders "special rights," namely, the right to apply for an adjustment under Section 25 as if there had been no reduction of capital; therefore, as the proposed reduction had not been approved at a meeting of the Preference shareholders, the resolution of the company was invalid. The Court of Appeal upheld this contention and refused the petition for reduction. The Court further said that even if the company's resolution had been validly passed they would have refused the petition on the ground that the proposed reduction was unfair. No imputation whatever was made against the good faith and impartiality of the directors, but the Preference shareholders had only agreed to the earlier reductions in reliance on the company's representations that their rights under Section 25 would not be prejudiced, and the company ought not to be allowed to extinguish the whole of the Preference capital and thereby deprive the shareholders of those rights.

### *Company Law—Rights of landlord when company in liquidation assigns valuable lease.*

**In Re House Property & Investment Co. Ltd.** (1953, 3 W.L.R. 1037) is an important decision on the rights of a landlord in the liquidation of a company which is his tenant. The company in this case held a 90-year lease of property at a rent of £5,000 a year, the rack rent being over £9,000 a year. The company went into liquidation and lawfully assigned the residue of the lease to B for £46,000. It was estimated that after all liabilities had been satisfied the company would have surplus assets amounting to more than £2,000,000 and therefore, good though the credit of B might be, the landlord would lose something of value when the company was dissolved and released from all its obligations under the lease. The landlord claimed that the liquidator ought to set aside a sum sufficient to meet all future and other rent under the lease and to provide for the performance of the coven-

ants of the lease. Roxburgh, J., held that the landlord had no absolute right to have a fund set aside but that it was possible, though unlikely, that in some future case the Court would order this to be done. It would, however, create a very dangerous precedent to make such an order in the present case when the lease had been lawfully assigned for value, for it would act as a clog upon a company's statutory right to wind itself up even when it was not insolvent; there were still 70 years of the lease to run and it would be highly inconvenient that the liquidation should be continued for that length of time in order that the liquidator should administer for the benefit of a landlord a fund created out of the assets of the original lessee. His lordship held, however, that the landlord was entitled to prove in the liquidation for the difference between the market value of the lease at the date of valuation with the benefit of the original lessee's covenants and of the same lease without that benefit.

### *Executorship Law and Trusts—Revocation of appointment.*

Many settlements and trusts created some years ago are ill-adapted to cope with taxation and death duties at their present level, and although schemes may be devised which would benefit all the beneficiaries it is often difficult to carry those schemes into effect owing to the technicality of the law upon the subject.

**In Re Greaves** (1953, 3 W.L.R. 987) G left a large sum in trust for his daughter, A, for life and gave her a power of appointment among her children or remoter issue in such manner as she should by deed revoke or irrevocable or by deed or codicil appoint. In 1938 A executed a revocable deed of appointment, in effect giving an equal share of the fund, subject to her own life interest, in favour of each of her five daughters. In 1950 a scheme was proposed, the essence of which was that the fund should be divided into five equal shares, one for each child, that the fund of each of the four adult children should be divided between A and that child actuarially according to the respective values of their interests, and that A should release her life interest in each fund while the child should assign to A her reversionary life interest in the part of the fund taken by A. The method chosen for carrying this scheme into effect was for A to revoke the appointment executed in 1938 and release her power of appointment. The trustee of the fund took out a summons to determine whether the revocation was invalidated by the doctrine of a fraud on the power.

Vaisey, J. held that on the authorities the doctrine did not apply to the release of a power but did apply to a power of



revocation. The scheme might be highly meritorious but the effect of it would be that A would acquire a large capital sum in exchange for her life interest: in other words A would be exercising her power of revoking the appointment in favour not only of the objects of the power of appointment but also of herself. Technically this would be a fraud on the power and consequently the revocation was invalid and the scheme could not be carried into effect in this way.

#### *Executrix Law and Trusts—power of beneficiaries to direct trustees.*

Three blocks of shares in G. W., Ltd., were held on trust for three daughters for life with remainder to their children. There were eight children, all of full age, and they joined with their mothers in sending directions to the trustees on the way in which they should vote at a company meeting. The trustees declined to accept these directions unless the Court ordered them to do so.

**In Re George Whichelow Ltd.** (1954, 1 W.L.R. 5) the learned Judge held that the trustees were entitled to exercise their own discretion on the ground that, although the daughters were aged 61, 58 and 52 respectively, they were not in law past the age of child bearing: therefore it was possible that there might be other beneficiaries, and these possible beneficiaries had not given any directions to the trustees.

#### *Executrix Law and Trusts—wife's rights against husband's mortgagees.*

It is now well settled that a deserted wife has normally a right against her husband to remain in occupation of the matrimonial home until he provides her with suitable alternative accommodation, and in *Bendall v. McWhirter* (1952, 2 Q.B. 466) (noted in *ACCOUNTANCY* for July, 1952 at page 219) this right was also held to be good against the husband's trustee in bankruptcy. In *Lloyds Bank Ltd. v. Trustee of the Property of O., a Bankrupt* (1953, 1 W.L.R. 1460) a wife made an unsuccessful attempt to enlarge the scope of this right.

In 1945 the husband mortgaged the home where he was living with his wife. About October, 1952, he deserted her and in November, 1952, she applied for an order permitting her to live there until he provided alternative accommodation; in April, 1953, this order was made. Meanwhile in December, 1952, the bank had called on the husband to repay the amount owing and as a result of his failure to do so a receiving order was made against him. Upjohn, J. said that no right asserted by the wife on behalf of or as agent for her husband would be of any avail against the bank and, further, that any right asserted

by the wife by virtue of her matrimonial status must arise by some act or event in the law before the mortgage of 1945 in order to be effective against the bank. In his view, when a wife enters a matrimonial home she has nothing in the nature of an irrevocable licence to remain in that home for ever: it is the duty of husband and wife to live together in such matrimonial homes as the vicissitudes of life may dictate and it is their duty to agree upon that home from time to time; the earliest moment at which the right of the wife to continue to reside in her husband's house against his will arises is when the husband deserts her. In this case the desertion had taken place long after the date of the mortgage and therefore the wife had no right to remain against the will of the mortgagees.

This case does not decide what would be the rights of the wife and mortgagee if the husband mortgaged the premises after he had deserted her. It would be advisable for prospective mortgagees to inspect the premises before the grant of the mortgage and, if they have any reason to suspect that the premises are occupied by a deserted wife, they should make further inquiries.

#### *Executrix Law and Trusts—Power of advancement.*

It is well known that, when a trust for sale is created after 1925, the trustees are empowered by Section 32 of the Trustee Act, 1925, to make advances to those interested in the capital of the fund. By Section 69 this power is excluded if a contrary intention is expressed in the instrument creating the trust, and in any case the power can only be exercised subject to certain conditions, one of which is that the persons entitled to a prior interest must give their consent in writing.

**In Re Rees Deceased** (1954, 2 W.L.R. 59) a testator left the residue of his estate on trust for sale upon trusts for his grandchildren for life with remainder to their children. The life interests were held upon what are called "protective trusts": if a beneficiary became of unsound mind or went bankrupt or assigned or charged his interest or did anything whereby his interest or any part of it became payable to some other person, that interest was to determine, but the trustees might then in their discretion apply for the maintenance of the former beneficiary any sums not exceeding in any one year the amount of the life interest.

The first question that arose was whether the reference to the "amount" of the life interest implied that the life interests would continue without diminution and therefore there was a "contrary intention" which would exclude the power of advancement.

Upjohn, J., held that in order to exclude this power the contrary intention must be clear and it was not clear in this case. The second point was whether the holder of a life interest would forfeit that interest by consenting to an advancement, because he would thereby do something which would result in part of his interest becoming payable to some other person. The learned Judge held that consent to an advancement would not bring about a forfeiture.

#### *Miscellaneous—Head-on collisions.*

The Court of Appeal has had to consider two cases recently (*Bray v. Palmer* (1953, 1 W.L.R. 1455) and *Baker v. Market Harborough Industrial Co-operative Society Ltd.* (1953, 1 W.L.R. 1472)) in which vehicles collided head-on more or less in the centre of the road and the trial judges were unable to decide which driver was to blame. The Court said that the trial judge in such circumstances ought always to consider the possibility of both drivers being equally to blame and approved the decision of one trial judge in awarding the blame equally.

#### *Miscellaneous—Protection of Mortgagees*

The recent tightness of money has reminded us that the Rent and Mortgage Interest Restrictions Acts protect mortgagees as well as tenants. In particular by Section 7 of the 1920 Act, subject to two provisos:

It shall not be lawful for any mortgagee, under a mortgage to which this Act applies [i.e. broadly speaking, any mortgage of rent-controlled premises] so long as (a) interest at the rate permitted under this Act is paid and is not more than 21 days in arrear and (b) the covenants by the mortgagor (other than the covenant for the repayment of the principal money secured) are performed and observed and (c) the mortgagor keeps the property in a proper state of repair and pays all interest and instalments of principal recoverable under any prior encumbrance, to call in his mortgage or to take any steps for exercising any right of foreclosure or sale, or for otherwise enforcing his security or for recovering the principal money thereby secured.

The case of *Nichols v. Walters* (1954, 1 W.L.R. 1) has, however, shown how important it is for the mortgagor to observe his obligations. In June, 1952, when no interest was in arrears, the mortgagees served a notice calling in the principal. Later the interest did fall into arrears and by December 17, 1952, when the mortgagees issued a summons asking for possession, interest was considerably more than 21 days in arrears. Before the summons was heard the arrears were paid off, but the Court of Appeal held that the protection of the Act was not thereby revived and the mortgagees were entitled to possession.

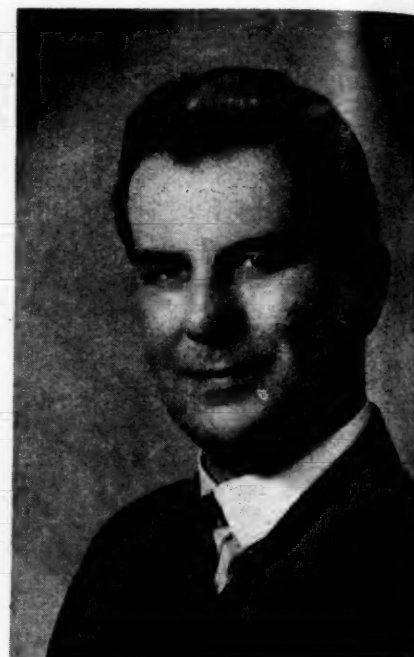
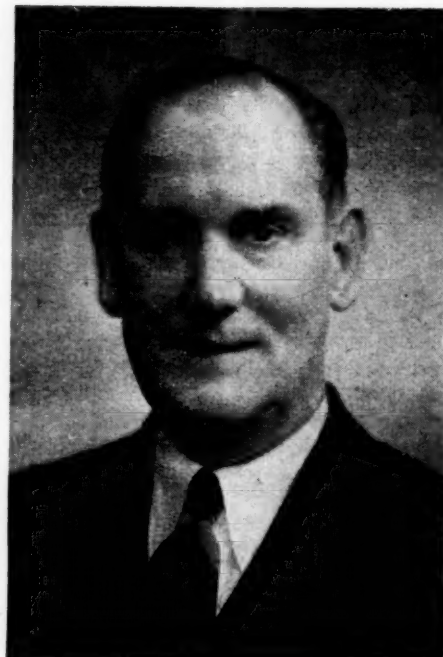
# The Society of Incorporated Accountants

## ACCOUNTANCY IN THE MODERN STATE

MR. J. STANLEY LEWIS, PRESIDENT OF THE Branch, was in the chair at the dinner held at the Royal Hibernian Hotel, Dublin, on January 30, by the Society of Incorporated Accountants in Ireland. The guests included the Rt. Hon. the Lord Mayor of Dublin (Alderman B. Butler, T.D.), the Hon. Mr. Justice Lavery, S.C., Mr. Bertram Nelson, F.S.A.A. (Vice-President, Society of Incorporated Accountants) and Mr. C. Evan-Jones (Deputy Secretary); Mr. A. A. Garrett, M.B.E., M.A.; Mr. R. P. Rice (Chairman of the Revenue Commissioners); Senator E. A. McGuire; Mr. John O'Brien, B.A., B.L. (Director of the Federated Union of Employers); and representatives of other professional bodies and of commerce.

The toast of "Ireland" having been honoured, Mr. J. Stanley Lewis (President of the Irish Branch) proposed the toast of "Prosperity to Ireland." He said they were all sorry that Mr. Barrowcliff, President of the parent society, was unable to be with them that evening. They were, however, delighted to welcome their old friend Mr. Bertram Nelson, the Vice-President.

The conditions which existed during and after the war had now ceased to operate and they were back to competitive trading. Were they ready for it? Wages and expenses in general had risen tremendously, and so had taxation, whilst in many cases hours had decreased. Employers, employees and the Government must realise that the price which they could obtain outside their own borders for their cattle, farm produce, ships and linen was the price which customers were prepared to pay. If they were to make any progress they must sell at a profit, and, therefore, their costs must be such as to make this possible. When profits were high the Government took a large proportion of them by way of taxation, and as a result it was impossible to create the reserves so necessary for extension and purchase of new plant. High taxation also made it impossible for the individual to save. The best incentive to progress, he suggested, was to place people in a position to save. Industry as a whole must try to reduce its expenses, and so, too, must the Government.



### New Members of the Council

Mr. W. F. Edwards, F.S.A.A., (left) and Mr. J. A. Jackson, F.C.A., F.S.A.A. (See also pages 83 and 118.)

Mr. John O'Brien, B.A., B.L. (Director of the Federated Union of Employers), responding, said that recently Mr. Lemass, the Minister for Industry and Commerce, had expressed the view that it was on the active and intelligent business leaders in the country that they must rely to ensure prosperity. The business men of the country were very ready, and had always given of their best efforts towards the country's prosperity, but in this they must have the right to the same freedom as the farmers, the workers, and other classes. The trend of legislation over recent years would show that was not the case, and they must be struck by the number of Acts and instruments directed at—if not against—business men's organisations. Only by co-operation between the professions and the business, industrial and farming communities would they ultimately secure the prosperity of Ireland.

Senator E. A. McGuire, proposing the

toast of The Society of Incorporated Accountants and Auditors, recalled that he had the pleasure of reading a paper at the Society's Conference in Dublin in 1951, when he met Mr. Barrowcliff and his charming wife. He was sorry to hear of his illness and hoped he would soon be restored to health.

The Society was a particularly good example of a vocational organisation. Such bodies had a major part to play in the economic and social life of every country, and should be welcomed in any truly democratic State. Ignorance of accountancy matters had sometimes resulted in Acts being passed by the Legislature which in operation inflicted injustices.

Mr. Bertram Nelson, J.P. (Vice-President of the Society of Incorporated Accountants), in response, conveyed the good wishes of the Council of the Society to the Irish Branch. Two of the Conferences of the Society which he recalled with special

pleasure were those held in Belfast and Dublin. At the last Dublin Conference he had read a paper on the interpretation and use of accounts. He would like to emphasise that aspect of accountancy again and to urge the desirability of making accounts more readily understood and more useful. Many large companies were developing new techniques in these directions and the accountancy profession could do most useful work in adapting these new methods for smaller businesses. It was, for example, helpful if conventional accounts could be accompanied by notes on significant features and by an analysis of significant figures for the past seven or ten years. Many small businesses could derive benefit from making a list of possible dangers, and then devising accountancy methods to give early information on dangerous trends.

The toast of "The Guests" was proposed by Mr. R. L. Reid, Vice-President, Society of Incorporated Accountants in Ireland, and replied to by the Lord Mayor of Dublin (Alderman, B. Butler, T.D.) and Mr. Justice Lavery.

Mr. Justice Lavery observed that the old days of free trade and *laissez-faire* were gone. In the world in which they lived Ministers had to intervene. What should be criticised was not the intervention, but the way in which the Minister did it. The profession of accountancy had a great role to play in the modern State. He was in complete agreement with Mr. Bertram Nelson that they should try to get at the facts behind the statistics, since statistics alone could be so misleading.

## THE SOCIETY'S LIST OF MEMBERS

THE NEW EDITION OF THE SOCIETY'S List of Members is now in course of preparation and will be published early in 1955. Members who have not already notified the Society of changes of address or appointment are requested to do so without delay.

## EVENTS OF THE MONTH

**March 1.—London:** "Profits Tax: Computation of Liability with Particular Reference to Distributions," by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A. Incorporated Accountants' Hall, W.C.2, at 6 p.m.  
**Middlesbrough:** "Auditing," by Mr. W. W. Bigg, F.C.A., F.S.A.A. Café Royal, Linthorpe Road, at 6.30 p.m.

**March 2.—Bournemouth:** "Modern Accounting Problems," by Mr. R. Glynne Williams, F.C.A. St. Peter's Hall, Hinton Road, at 6.30 p.m.

**Leeds:** "The Duties of Liquidators and Trustees," by Mr. R. D. Penfold, Barrister-at-Law. Jacomelli's Restaurant, Boar Lane, at 6.15 p.m.  
**London:** "The Purpose and Mathematics of Simple Statistical Techniques. Open seminar held by Professor F. Sewell Bray, F.C.A., F.S.A.A., Stamp-Martin Professor of Accounting. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

**Newcastle upon Tyne:** "Interpretation of a Balance Sheet," by Mr. W. W. Bigg, F.C.A., F.S.A.A. The Library, 52 Grainger Street, at 6.15 p.m.

**March 3.—Hull:** Luncheon Meeting. "In Court," by Mr. J. R. Macdonald, O.B.E., Regal Room, Ferensway, at 12.45 p.m.

**London:** "The English Judicial System," by Mr. O. Griffiths, M.A., LL.B., Barrister-at-Law. Introductory Course for new students (3). Incorporated Accountants' Hall, W.C.2, at 5.30 p.m.

**Southampton:** "Modern Accounting Problems," by Mr. R. Glynne Williams, F.C.A. Polygon Hotel, at 6.30 p.m.

**March 4.—Portsmouth:** "Modern Accounting Problems," by Mr. R. Glynne Williams, F.C.A. Central Library, at 6.30 p.m.

**Swansea:** "Auditing Case Law," by Mr. Brian T. J. Magee, B.COM., F.C.A. Students' meeting. Central Public Library, Alexandra Road, at 6.45 p.m.

**March 5.—Birmingham:** "The Accounts of an Executor, Trustee and Administrator," by Mr. G. G. Thomas, PH.D., F.S.A.A., A.C.A. Law Library, Temple Street, at 6.15 p.m.

**Bristol:** District Society special general meeting. Royal Hotel, College Green, at 6 p.m.

**Bristol:** "The Executor's Year," by Mr. P. E. Harris, A.S.A.A. Royal Hotel, College Green, at 6.30 p.m.

**Cambridge:** "The Work of the Cambridge University Department of Applied Economics," by Mr. J. E. G. Utting, M.A. The Shirehall, at 6.30 p.m.

**Manchester:** "Costing," by Mr. S. C. Roberts, F.C.W.A. Students' meeting. Incorporated Accountants' Hall, at 6 p.m.

**March 8.—Coventry:** "Life Assurance," by Mr. M. V. Booth. Craven Arms, High Street, at 6.30 p.m.

**Leicester:** "Quiz." Panel of Inspectors of Taxes and Incorporated Accountants. Windsor Room, Bell Hotel, Humberstone Gate, at 6 p.m.

**London:** "The Formation of a Limited Company," by Mr. B. W. Gould. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

**Luton:** Mock meeting. Settlement of Taxation Computations with H.M. Inspector of Taxes. Students' meeting. George Hotel, at 6.15 p.m.

**Sheffield:** "The Liabilities and Responsibilities of a Director under the Companies Act, 1948," by Mr. Alfred Read, C.B.E., F.C.I.S. City (Memorial) Hall, at 6.30 p.m.

**March 9.—Dublin:** "The Correct Approach to Examinations," by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A. Students' meeting. Jury's Hotel, Dame Street, at 6.15 p.m.

**March 10.—Belfast:** Luncheon meeting of members and students. Speaker: Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A. Presbyterian War Memorial Hostel, Howard Street, at 1 p.m.

**Belfast:** "The Correct Approach to Examinations," by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A. Students' meeting. Library, 13 Donegal Square West, at 7 p.m.

**March 11.—Hull:** "Company Audits," by Mr. R. Glynne Williams, F.C.A., F.T.I.L. Students' meeting. Church Institute, Albion Street, at 6.15 p.m.

**March 12.—Birmingham:** "Schedule E, Pay-As-You-Earn Coding and Assessment," by Mr. E. L. Cowell. Law Library, Temple Street, at 6.15 p.m.

**Glasgow:** Study Circle. Students' meeting. Christian Institute, 70 Bothwell Street, at 5.45 p.m.

**Hull:** Silver Jubilee dinner dance. New York Hotel, Anlaby Road, at 7 p.m.

**Leicester:** "Partnership and Joint Venture Accounts," by Mr. A. E. Langton, F.C.A., F.S.A.A. Students' meeting. Turkey Café, Granby Street, at 6 p.m.

**Manchester:** "Brains Trust." Joint meeting with H.M. Inspectors of Taxes, Manchester District Centre. Incorporated Accountants' Hall, at 6 p.m.

**Northampton:** Mock appeal on a point of law, arranged by Mr. J. W. Walkden, A.C.A., A.S.A.A. Melba Room, Corner House Café, St. Giles Square, at 6 p.m.

**March 13.—Dublin:** Rugby match between Dublin students and Belfast students.

**March 15.—Bradford:** "Standard Costing in the Textile Trade," by Mr. E. H. Illingworth, A.C.A. Liberal Club, Bank Street, at 6.15 p.m.

**March 16.—Dublin:** "Cost Accounts," by Mr. H. L. McKee, A.S.A.A. Students' meeting. Jury's Hotel, Dame Street, at 6.15 p.m.

**Dudley:** Open discussion. Dudley and Staffordshire Technical College, Broadway, at 7 p.m.

**Newcastle upon Tyne:** "Amalgamations and Reconstructions," by Mr. R. Glynne Williams, F.C.A., F.T.I.L. Library, 52 Grainger Street, at 6.15 p.m.

**March 17.—Carlisle:** "Amalgamations and Reconstructions," by Mr. R. Glynne Williams, F.C.A., F.T.I.L. County Hotel, at 6.30 p.m.

**London:** "An introduction to Taxation," by Mr. J. P. S. Edge-Partington, A.C.A., A.S.A.A. Students' meeting. Incorporated Accountants' Hall, W.C.2, at 5.30 p.m.

**Waterford:** Students' annual dinner and dance. Grand Hotel, at 7 p.m.

**March 18.—Cardiff:** Mock creditors' meeting. Students' meeting. Temple of Peace, Cathays Park, at 7 p.m.

**Middlesbrough:** "Incomplete Records," by Mr. R. W. Swinbank, F.C.A., F.S.A.A. Café Royal, Linthorpe Road, at 6.30 p.m.

**Oxford:** "Income Tax—Losses and Personal Computations," by Mr. H. Barrett, A.C.A., A.A.C.C.A., A.T.I.L. Students' meeting. George Restaurant, George Street, at 6.30 p.m.

**March 19.—Birmingham:** "The Assessment to Income Tax of Trading Profits," by Mr. C. A. Newport, F.A.C.C.A. Joint students' meeting. Chamber of Commerce, New Street, at 6.30 p.m.

**Bournemouth:** Dinner.

**Manchester:** "Costing," by Mr. S. C. Roberts, F.C.W.A. Students' meeting. Incorporated Accountants' Hall, at 6 p.m.

**Swansea:** "New Towns," by Mr. M. S. Sceates, A.S.A.A., F.I.M.T.A. Mackworth Hotel, High Street, at 7 p.m.



**March 21.—Sheffield:** Service in the Cathedral, at 3 p.m.

**March 22.—Coventry:** "Excess Rents and Management, and Maintenance Expenses Claims," by Mr. K. S. Carmichael, A.C.A. Craven Arms, High Street, at 6.30 p.m.

**London:** "The Winding-Up of a Limited Company," by Mr. O. Griffiths, M.A., LL.B., Barrister-at-Law. Incorporated Accountants' Hall, at 6 p.m.

**March 23.—Dublin:** "Estate Duty," by Mr. R. I. Morrison, A.C.A. Students' meeting. Jury's Hotel, Dame Street, at 6.15 p.m.

**March 24.—Belfast:** "Leaves from an Accountants' Notebook," by Mr. B. A. Courtney, M.COM.SC., A.C.A., A.S.A.A. Students' meeting. Library, 23 Donegall Square West, at 7 p.m.

**Nottingham:** "Current Topics for Examinees," by Mr. R. Glynne Williams, F.C.A., F.T.I.I. The Reform Club, Victoria Street, at 6.30 p.m.

**March 25.—Brighton:** "Taxation," by Mr. L. J. Northcott, F.C.A. Students' meeting. Royal Pavilion, at 7 p.m.

**Cardiff:** Dinner. Park Hotel.

**March 26.—Birmingham:** "The Principles of Bank Lending," by Mr. T. E. Hurst, District Manager of Lloyds Bank Ltd. Law Library, Temple Street, at 6.15 p.m.

**Bradford:** "Economics," by Mr. A. R. Ilesic, B.COM. Liberal Club, Bank Street, at 6.15 p.m.

**Bristol:** "Some Practical Aspects of Current Costing Technique," by Mr. F. Underdown, A.C.W.A. Royal Hotel, College Green, at 6.30 p.m.

**Glasgow:** Study circle. Students' meeting. Christian Institute, 70 Bothwell Street, at 5.45 p.m.

**Manchester:** "Costing," by Mr. S. C. Roberts F.C.W.A., M.I.I.A. Students' meeting. Incorporated Accountants' Hall, at 6 p.m.

**Norwich:** "Finance for Industry," by Mr. H. G. Hodder. Royal Hotel, at 7 p.m.

**March 27.—Waterford:** Lecture by Mr. Noel Fanning, A.S.A.A. Students' meeting. Offices of Messrs. W. A. Deevy & Co., at 8 p.m.

**March 29.—Bedford:** "Executorship Law in Relation to Distributions," by Mr. O. Griffiths, M.A., LL.B., Barrister-at-Law. Embankment Hotel, at 6.15 p.m.

**London:** "The Preparation of an Inland Revenue Affidavit," by Mr. A. E. Langton, LL.B., F.C.A., F.S.A.A. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

**Northampton:** Luncheon meeting. Speaker: Mr. Harold Wincott.

**March 30.—Leeds:** "The Valuation of Stock and Work-in-Progress and the Auditors' Duties with Reference thereto," by Mr. W. W. Bigg, F.C.A., F.S.A.A. Jacomelli's Restaurant, Boar Lane, at 6.15 p.m.

**London:** "Accounting Dynamics—1." Third public research lecture by Professor F. Sewell Bray, F.C.A., F.S.A.A. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

**March 31.—London:** Meeting of the Management Group. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

**April 1.—Newport:** "The Auditing of Large Companies," by Mr. A. E. Langton, LL.B., F.C.A., F.S.A.A. Students' meeting. Monmouthshire and South Wales Building Society Offices, Dock Street, at 6.30 p.m.

**Nottingham:** "Profits Tax," by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A. The Reform Club, Victoria Street, at 6.30 p.m.

**Oxford:** Mock tax appeal. Students' meeting. George Restaurant, George Street, at 6.30 p.m.

**April 2.—Gloucester:** "Incomes and Prices," by Professor R. C. Tress, B.SC.(ECON.). Wheatstone Hall, at 6.30 p.m.

**Leicester:** "Capital Allowance," by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A. Students' meeting. Turkey Café, Granby Street, at 6 p.m.

**April 2-4.—Hull:** Residential course for students and members. Thwaite Hall, University College of Hull.

**April 5.—Coventry:** "Loss of Profit Insurance," by Mr. F. Brain, F.C.I.I. Craven Arms, High Street, at 6.30 p.m.

**Dublin:** "Current Economics," by Mr. A. R. Ilesic, B.COM. Students' meeting. Jury's Hotel, Dame Street, at 6.15 p.m.

**London:** Address by Sir Harold Howitt, G.B.E., D.S.O., M.C., F.C.A. Incorporated Accountants' Hall, W.C.2, at 7 p.m.

**Luton:** "Incomplete Records," by Mr. R. Glynne Williams, F.C.A. George Hotel, at 6.15 p.m.

**April 6.—West Hartlepool:** "Taxation—Schedule D," by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A. Grand Hotel, at 6.30 p.m.

**April 7.—Belfast:** Luncheon meeting. Speaker: Mr. A. R. Ilesic, B.COM.SC., F.S.A. Presbyterian War Memorial Hostel, Howard Street, at 1 p.m.

**Hull:** Luncheon meeting. "The Budget," by Mr. W. H. Hall, A.S.A.A., A.G.A. Regal Room, Ferensway, at 12.45 p.m.

**Newcastle upon Tyne:** "Profits Tax," by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A., Library, 52 Grainger Street, at 6.15 p.m.

## COUNCIL MEETING

JANUARY 20, 1954

**Present:** Mr. C. Percy Barrowcliff (President), Mr. Bertram Nelson (Vice-President), Sir Frederick Alban, Mr. A. Stuart Allen, Mr. F. V. Arnold, Mr. Edward Baldry, Mr. R. Wilson Bartlett, Mr. Robert Bell, Mr. C. V. Best, Mr. H. J. Bicker, Professor F. Sewell Bray, Mr. Andrew Brodie, Mr. Henry Brown, Mr. E. Cassleton Elliott, Mr. M. J. Faulks, Mr. W. H. Fox, Mr. A. Hannah, Mr. L. C. Hawkins, Mr. C. A. G. Hewson, Mr. Hugh O. Johnson, Mr. W. H. Marsden, Mr. Festus Moffat, Mr. T. H. Nicholson, Mr. F. A. Prior, Miss P. E. M. Ridgway, Mr. P. G. S. Ritchie, Mr. W. G. A. Russell, Mr. R. E. Starkie, Mr. Joseph Stephenson, Mr. Percy Toothill, Mr. Richard A. Witty, Sir Richard Yeabsley.

### MEMBERSHIP OF THE COUNCIL

It was resolved under the provisions of Article 48 that Mr. J. A. Jackson, Fellow, London, be appointed a member of the Council to fill the vacancy caused by the

death of Sir Thomas Keens, and that Mr. W. F. Edwards, Fellow, London, be appointed to fill the vacancy caused by the death of Sir Arthur Middleton.

### REPORTS OF COMMITTEES

The Council received the minutes of recent meetings of the Finance and General Purposes, Examination and Membership, Disciplinary, Taxation, Development and Applications Committees, of the ACCOUNTANCY Editorial Conference, and of the Committee of the South African (Western) Branch, and of a combined meeting of the Accountants' Joint Parliamentary and Co-ordinating Committees.

### INCORPORATED ACCOUNTANTS' HALL

A report was received that a licence had been granted for an extension to Incorporated Accountants' Hall.

### INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

It was reported that the President, Vice-President and Secretary of the Society, with their ladies, had been invited to attend the centenary celebrations of the Scottish Institute in June 1954.

### HONORARY MEMBERSHIP

It was resolved that Mr. J. R. N. Stone, C.B.E., M.A., Fellow of King's College, Cambridge, be elected an Honorary Member of the Society.

### EXAMINATION MEDALS AND PRIZES

The following awards were made in respect of the examinations held in 1953:

*Gold Medal* to John Derrick Henderson, Coventry.

*Silver Medal* to Donald Frederick McPhee, Manchester.

*Henry Morgan Memorial Prize* to Donald Frederick McPhee, Manchester.

*Arthur E. Piggott (Manchester) Prize* to Donald Frederick McPhee, Manchester.

*Irish Jubilee Prize—Final Examination* to Thomas Francis White, Waterford.

*Irish Jubilee Prize—Intermediate Examination* to William George Martindale, Dublin.

### INTERMEDIATE EXAMINATION QUESTIONS

It was decided that no further questions on profits tax should be set in the Intermediate Examination.

### MANAGEMENT ACCOUNTING COURSE 1954

Provisional arrangements were approved for a course on Management Accounting to be held at Balliol College, Oxford, from September 17 to 21, 1954.

### MEMBERSHIP

The Council approved applications for promotion to Fellowship, for election to membership of the Society, and for registration as members in retirement, subject to

payment of the appropriate entrance fees and subscriptions.

#### RESIGNATIONS

It was reported that the resignations of the following members had been accepted: BAKER, Frederick Charles (Associate), Fern-down, Dorset; CHUTER, George Stephen (Associate), Wallington; CRAWFORD, Edward William (Associate), Widnes; CRAWLEY, Peter John (Fellow,) Weymouth; DADACHANJI, Tehmurasp Ardesar (Associate), Bombay; McKOWEN, Charles Sydney Leonard (Associate), Johannesburg; MORRIS, Leslie (Fellow), Cardiff; SPEAKMAN, Reginald Percy (Fellow), Teignmouth; WHELAN, William Francis (Associate), London; WILSON, Samuel (Associate), Hayes.

#### DEATHS

The Council received with regret a report of the death of each of the following members: BOOTH, Norman (Fellow), Belfast; COX, Evelyn Beatrice (Associate), London; HODGES, Wilfred Fores (Associate), Southampton; LYON, Charles Coleman (Fellow), London; METCALFE, Leslie (Associate), Birmingham; NAUGHTON, Thomas Edward, M.B.E. (Associate), Dundoran, Co. Donegal; RUSSELL, Charles Neville (Fellow), London; SPARROW, Colonel Walter Augustus, O.B.E., T.D. (Fellow), Bournemouth.

### DISTRICT SOCIETIES AND BRANCHES

#### SCOTTISH BRANCH

A MEETING OF THE COUNCIL OF THE SCOTTISH Institute of Accountants, the Scottish Branch of the Society, was held in Glasgow on December 4. Mr. Festus Moffat, O.B.E., President of the Branch, was in the chair.

The Council received with deep regret a report of the death of Sir Thomas Keens.

The chairman reported that he had represented the branch at a dinner held in Edinburgh by the Association of Certified and Corporate Accountants.

A further meeting of the Council was held on January 8. Mr. Festus Moffat again presided.

Discussion takes place on the standard required of Scottish candidates for exemption from the Preliminary Examination.

#### LIVERPOOL

A RESIDENTIAL COURSE FOR STUDENTS WILL be held during the weekend April 9 to 11

at the University of Liverpool, Men's Hall of Residence, North Mossley Hill Road, Liverpool. Lectures will be given by Professor W. T. Baxter, Mr. Percy F. Hughes, Mr. C. Bean, Mr. E. G. Hardman, Mr. A. C. Simmonds and Mr. B. B. Parkinson. The charge for the course will be £2 10s. Further particulars may be obtained from the Joint Honorary Secretaries of the District Society.

#### NEWCASTLE UPON TYNE

AT THE MONTHLY LUNCHEON CLUB MEETING on January 28 Mr. H. G. Thomas, H.M. Principal Inspector of Taxes, spoke on co-operation between the accountancy profession and the Inland Revenue.

Mr. Thomas said the Revenue depended a great deal on the integrity of the profession.

The Revenue had issued printed notices of appeal wherein the accountant was able to state the date on which he expected to have his client's accounts ready and the amount of tax the client would be prepared to pay on account. Arrangements had also been made to stop the annoying reminders for tax returns where the accountant co-operated by returning them completed as far as allowances were concerned, leaving the matter of the agreed trading figure to a later date. Special forms had been issued for E.P.L. computations, which Mr. Thomas felt sure had been useful to the profession.

He put forward suggestions for discussion groups, especially on new legislation; the holding of a mock appeal; and, on the social side, golf matches.

#### NORTH LANCASHIRE

NEW GROUND WAS BROKEN IN STUDENTS' activities on January 27, when a quiz was held in Preston between teams representing discussion groups in Accrington and Kendal. The teams, each consisting of three Intermediate and two Final students, answered questions on income tax, costing, elements of English law, company law, executorship, and not-too-serious general knowledge, on the lines of the radio "Top of the Form." Accrington were successful with 44 points against Kendal's 36. Mr. G. M. Thompson of Kendal took the prize (kindly given by Mr. J. A. Booth, A.S.A.A.) for the highest individual score. The questions were set by Mr. Edward V. Donnelly, A.S.A.A., who acted as question-master, with Mr. E. Oxley, Mr. G. D. Whipp and Mr. E. Smith as umpires and scorer. A good gathering of students was present as an audience and

it is suggested that a return match shall take place in Kendal during the summer.

### EXAMINATIONS—MAY 1954

THE SOCIETY'S EXAMINATIONS WILL BE HELD on the following dates:

Preliminary	... May 11 and 12, 1954
Intermediate	... May 13 and 14, 1954
Final: Part I	... May 11 and 12, 1954
Part II	... May 13 and 14, 1954

The centres will be Belfast, Birmingham, Cardiff, Dublin, Glasgow, Leeds, Liverpool, London, Manchester, Newcastle upon Tyne and Southampton.

Completed application forms, together with all the relevant supporting documents and the fee (Final, Part I, £4 4s.; Part II, £4 4s.; Parts I and II together, £7 7s.; Intermediate, £4 4s.; Preliminary, £3 3s.) must reach the Secretary at Incorporated Accountants' Hall, Temple Place, Victoria Embankment, London, W.C.2, not later than Monday, March 15, 1954.

Candidates are asked to obtain application forms from the Honorary Secretary of their Branch or District Society.

### INTERMEDIATE EXAMINATION

It has been decided that no further questions on Profits Tax shall be set in the Intermediate Examination.

### PERSONAL NOTES

Mr. F. G. Cox, A.S.A.A., has been appointed Chief Accountant of Broadcast-Relay Ltd., London, S.W.1.

Mr. D. O. French, A.S.A.A., has entered into partnership with Mr. D. H. Mason, A.S.A.A. The two practices hitherto carried on under the names of Monstardiers and of Mason & Co. are now being continued by them under the style of Mason, French and Co., Incorporated Accountants, at 70 Queen Victoria Street, London, E.C.4; Forde House, Cloth Fair, E.C.1; and 10 Nightingale Road, E.5.

Mr. H. Boothby, A.S.A.A., has been appointed secretary to George T. White Shoe Co., Ltd., Leicester, and associated companies.

Mr. Leslie Smith, A.S.A.A., has been appointed Borough Treasurer of Sunderland. He was formerly Deputy Borough Treasurer.

Messrs. Cryer & Kitchen, Incorporated Accountants, Keighley, have admitted as a partner Mr. G. L. Kitchen, A.S.A.A.

Mr. H. E. R. Worley, A.S.A.A., is now Chief Accountant to Rubber Improvements Ltd., Wellingborough.

Mr. G. W. Lunt, Incorporated Accountant, has commenced public practice at Bordeleau, Southsea Road, Datchet.

Mr. Frank Myers, A.S.A.A., Wetherby, has taken into partnership his son, Mr. F. H. W. Myers, A.S.A.A. They are practising under the style of Frank Myers & Son, Incorporated Accountants.

Messrs. Brooke & Stocks, of Bradford, Halifax and Sowerby Bridge, announce that they have taken into partnership Mr. Geoffrey L. Green, A.S.A.A. The style of the firm remains unchanged.

Mr. Alfred P. Wilkins, Incorporated Accountant, has commenced public practice at 83 Langdale Mansions, Cannon Street Road, London, E.1.

Mr. R. E. Harris, A.S.A.A., has taken up an appointment as accountant to Sarawak Oilfields Ltd., Seria, State of Brunei.

Mr. C. F. Rumble, F.S.A.A., Mr. L. A. Watson, F.S.A.A., and Mr. E. J. Danbury, A.S.A.A., have terminated their partnership. Mr. Rumble is continuing the firm name of Clarkson and Rumble, Incorporated Accountants. Mr. Watson and Mr. Danbury are practising in partnership as Watson and Danbury, Incorporated Accountants. For the present both firms are remaining at 788 Salisbury House, London Wall, London, E.C.2.

Mr. F. N. Padgham, A.S.A.A., A.I.M.T.A., has been appointed Treasurer of the States of Jersey.

Mr. C. W. Reid, B.Sc.(ECON.), A.S.A.A., has been appointed Under-Secretary for Finance in the Ministry of Works.

Mr. C. B. Wulcko, A.S.A.A. has recently taken the post of Chief Accountant of Maubré & Garton, Ltd., of Hammersmith.

Mr. George Edney, A.S.A.A. is now Deputy Chief Accountant for the Port of London Authority.

Mr. H. R. Churchill, A.S.A.A., C.A. (CANADA), has commenced public practice in partnership with Mr. K. G. Myles, C.A.(CANADA) under the style of Churchill and Myles, Chartered Accountants, P.O. Box 156, 203 Main Street South, Kenora, Ontario.

Messrs. Geo. H. Chapman & Co., Incorporated Accountants, Folkestone, have opened a branch office at 79 High Street, Hythe, Kent.

Messrs. Jones, Avens, Worley and Piper, of Chichester, announce that Mr. Frederick R. Palmer has joined them in partnership.

Mr. E. G. W. Scott, A.S.A.A., F.T.I.I. and Mr. K. E. Carr, A.S.A.A. have formed the firm of Scott, Carr & Co., Incorporated Accountants at Bank Chambers, New Street, Chelmsford, Essex. They remain partners in the associated firm of Eric G. W. Scott & Co., Westcliff.

## REMOVALS

Messrs. Morgan & Co. announce that their office address is now Southam Chambers, Waltham Street, Hull.

Messrs. C. L. Walker & Co. announce that their office address is now 92 New Bond Street, London, W.1.

## OBITUARY

### DAISY CROSS

The Incorporated Accountants' Society of Manchester and District has sustained a severe loss in the death of Miss Daisy Cross, A.S.A.A., of Timperley, Cheshire. Miss Cross qualified as a member of the Society of Incorporated Accountants in 1924, after several years in the office of the late Mr. Arnold Watson, Incorporated Accountant, and started her own practice in Manchester two years later.

She was elected a member of the District Society Committee in 1931, and took a keen and active interest in all District Society activities until compelled by ill health to resign from the committee in 1948.

### FRED LIONEL HUBBARD

We record with regret that Mr. F. L. Hubbard, A.S.A.A., died on January 7, at the age of 69. Mr. Hubbard became a member of the Society of Incorporated Accountants in 1912, after gaining the Silver Medal in respect of the Final Examinations of 1911. He was then taken into partnership by his former employer in the firm of Mannington & Hubbard at Hastings and Bexhill. He remained a partner in the firm until his retirement in 1945.

The funeral service took place on January 13 at Beulah Baptist Church, of which Mr. Hubbard had been a deacon and honorary treasurer for 30 years.

Mr. Hubbard was a founder member and past president of Bexhill Rotary Club. He held a long service medal as a special constable, and for a time served in the Observer Corps. His hobbies included bowls and fishing.

The *Power-Samas Magazine*, now in its nineteenth year as a monthly publication, appeared last month in an attractive new guise, with colour, a liberal display of photographs and a contemporary format. The result is a very readable journal on punched card accounting, which entirely succeeds in retaining its informativeness.

## Study Meetings in Mechanised Accounting

A series of meetings on mechanised accounting for professional accountants will be held at the offices of the National Cash Register Company, Ltd., 206-216 Marylebone Road, London, N.W.1, on Wednesdays, April 7, 14, 21 and 28, at 6.15 p.m. Incorporated Accountants are invited to apply to the company for admission cards.

### PROGRAMME

*Introduction to Mechanised Accounting.*—Accounting records; machine development; elements of accounting machines; ledger posting routine; control accounts; cheque and receipt writing.

*Mechanised Accounting in Industry.*—Explanation of basic applications, including payroll; job costing; stock and material control; analysis; statistical information.

*The Professional Accountant and Mechanisation.*—Investigation procedure; machine justification; manual systems v. machines; selection of means; training of staff; installation.

*The Auditor and Mechanisation.*—Auditing techniques; internal audit; custody of forms; conformity with the Companies Act, 1948, and the Institute's recommendations; audit programmes.

## "ACCOUNTANCY"

### Binder for Current Issues

TEMPORARY BINDERS TO HOLD UP TO twelve issues of ACCOUNTANCY are on sale at the price of 12s. 6d. (by post 13s.) from the Society of Incorporated Accountants, Incorporated Accountants' Hall, Temple Place, Victoria Embankment, London, W.C.2.

These binders are in green with gilt lettering. Each month's issue as it is received is quickly filed in the binder and held in place by a steel rod, the whole opening like a book for reading.

Permanent binding of the completed volume continues to be undertaken, and permanent binding cases supplied, by T. Whittingham & Co., Ltd., as stated in our issue for January, page 8.